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Background, Prospects of RENMIN RIBAO Editor-in-Chief

93CM0040A Hong Kong CHING PAO [THE MIRROR] in Chinese No 10, 5 Oct 92 pp 34-36

[Article by Lu Jen (7627 0086): "Shao Huaze (6730 5478 3419), RENMIN RIBAO editor-in-chief"]

[Text] Shao Huaze had been deputy director of JIEFANGJUN BAO before he was appointed RENMIN RIBAO's editor-in-chief after "June 4," and since then he has kept a low profile. But in fact he has become increasingly more influential within CPC propaganda and theoretical circles. Yang Shangkun and Yang Baibing are very pleased with him. After the 14th National Party Congress, he may soar even higher and replace Gao Di [7559 3695] as director, or take control of the CPC Central Propaganda Department, or return to the army and take charge of the General Political Department.

After the "June 4" incident in 1989, the CPC reorganized RENMIN RIBAO's leading group and on June 20 formally announced to the world the reshuffling of personnel. Former RENMIN RIBAO director, Qian Liren [6929 2621 0088], and editor-in-chief, Tan Wenrui [6223 2429 3843], were dismissed, and Gao Di, CPC Central Party School first vice president and former Jilin Province party committee secretary, was named director, and Shao Huaze, director of the Liberation Army's General Political Department and former JIEFANGJUN BAO deputy director, was named editor-in-chief.

Growing Influence in Propaganda and Theoretical Circles

This official party newspaper's new leading group has been at work for more than three years since June 1989. According to reports by overseas media, while the RENMIN RIBAO has published some editorials and commentaries publicizing Deng Xiaoping's line of reform and opening up, it has also played up "leftist tunes" against the "peaceful evolution" and has questioned Deng's "socialist" versus "capitalist" approach. While foreign media have praises as well as criticisms for RENMIN RIBAO, there has been no dispute over director Gao Di's notoriety. Everything "leftist" printed by RENMIN RIBAO has been without exception attributed to Gao Di, which makes Gao Di the front man for the conservative forces in CPC propaganda and theoretical circles. He has become a fairly well-known "king of the leftists" abroad. In sharp contrast to Gao Di is Shao Huaze, the CPC party newspaper's editor-in-chief, whom few have heard anything negative about at home or abroad. Occasionally when he is mentioned in the media, he is regarded as a supporter of Deng Xiaoping's reform line. Recently, in a report on members of the 14th National Party Congress's political report drafting committee, a Taiwan newspaper said, "Deng Xiaoping has been very careful in selecting his committee members to make sure that his viewpoints on accelerated reform and liberated thinkings will become the gist of the 14th

National Party Congress's report. For example, one of the drafting committee members is Shao Huaze, who, when he was editor-in-chief of JIEFANGJUN BAO, told Yang Shangkun that he supported Deng Xioping's line, and Yang Shangkun who is Deng Xioping's long-time right-hand man has also urged Shao to do something to reflect the army's support for Deng Xioping's reform line."

The fact of the matter is, Shao Huaze has become increasingly influential in CPC propaganda and theoretical circles. His name is on the list of members of the CPC 14th National Party Congress Central Committee. But few know about Shao Huaze, the man, overseas. This is partly because of his army background and that his resume has never been made public, and partly because since he became editor-in-chief of RENMIN RIBAO, he has deliberately kept a "low profile."

His Early Philosophical Theses Proved His Talents

Shao Huaze was born around 1935. He was originally from Zhejiang's Jinhua County, from a peasant family. He attended school in his hometown until he graduated middle school. Thereupon, he enrolled in Shanghai's No. 2 Army Medical School and joined the CPC in the same year. At the time of his graduation, the Liberation Army had just decided to train a group of their own propaganda staff to strengthen the troops' political education. Shao Huaze was chosen and sent to Beijing's People's University for a two-year study. Afterwards he was assigned to JIEFANGJUN BAO to work in the editorial department on theory and propaganda. Shao Huaze studied hard and was a hard-worker. When he was an editor, he published many theses, one of which was on the philosophy of dividing one into two which was published alongside Wang Rouzhui's [3769 5387 3055] "Desk Philosophy." Mao Zedong had high praises for him. During the "Cultural Revolution," Mao Zedong's daughter, Li Na [2621 6077] (Xiao Li [5618 0500],) was in charge of JIEFANGJUN BAO, and Shao Huaze at one time was a key member of the paper's leading group. After the "Cultural Revolution," Shao managed to keep his post as deputy director (deputy division level) of the propaganda department.

His Political Career Took Off In the Hu Yaobang Era

Shao Huaze's political career began to take off during the Hu Yaobang era. In September 1980, after Hu Yaobang became CPC general secretary, he set up a research department in the Secretariat to serve as a think-tank. Hu Cheng [7579 4939] and Lin Jianqing [2651 3386 7230] were named chairman and vice chairman, respectively, and Hu Qiaomu [7579 0829 2606], in his capacity as secretary of the Secretariat, was in charge of the daily routine at the research department. The then CPC Central Committee followed Deng Xiaoping's instructions and decided to draft the "Resolution on Several Historical Issues Concerning the Party Since the Founding of the PRC." Because that article also dealt with certain

party, political, and military issues, the Secretariat decided to make the research department the main body and let the government departments and the army choose several men to form a writing group to draft the paper. The military naturally wanted the General Political Department's recommendation, and the latter assigned the task to JIEFANGJUN BAO. Thus, Shao Huaze was temporarily assigned to the post and became the army's representative in the drafting group. During that period, Shao Huaze had a chance to come into contact with Deng Xiaoping and Hu Yaobang and other top-level leaders, and he also came to know some high-ranking officials and celebrities in CPC propaganda and theoretical circles, such as Yuan Mu [5913 2606] and Lu Zhichao [4151 0037 6389], who later became spokesmen for the State Council and the CPPCC respectively.

Entering RENMIN RIBAO on Yang Baibing's Recommendation

In 1981, the Sixth Plenary Session of the 11th Party Central Committee ratified the "Resolution on Several Historical Issues Concerning the Party Since the Founding of the PRC." After the drafting group was disbanded, Shao Huaze returned to JIEFANGJUN BAO, and soon thereafter he was promoted to deputy director (deputy group army level. At that time the paper did not have an editor-in-chief system.)

At the end of 1983, Yu Qiuli [0151 7264 6849] replaced Wei Guoqing [7279 0948 7230] as director of the Liberation Army's General Political Department, and taking advantage of the anti-bourgeois liberalization movement and the drive to clean up the "spiritual pollution," Yu engaged in wholesale factionism to purge those of a different faction and attacked and excluded Wei Guoqing's troupe. Amid the radical reorganization of JIEFANGJUN BAO, almost all the original director and deputy directors appointed by Wei Guoqing were dismissed and replaced by Yu's followers. Former Liberation Army Political College deputy director, Qian Diquan [6929 2107 0578], was named acting director. This round of struggle brought Shao Huaze renewed opportunity; he was promoted from the last deputy director to first deputy director.

In 1985, the army was reduced in size by a million men, and many old cadres were furloughed or retired. Due to his age advantage and his political credentials, Shao Huaze was promoted directly from deputy director of the Liberation Army news agency to director of the General Political Department's Propaganda Department (army commander rank—he was decorated major general.)

Insiders say that Shao Huaze was appointed editor-in-chief of RENMIN RIBAO on Yang Baibing's recommendation. A few days after the "June 4" incident in 1989, Yang Shangkun, Li Peng, and Qiao Shi and others were in control of the CPC Central Committee. They all believed that to stabilize the situation, it was imperative that the leaders themselves were in control of RENMIN

RIBAO in order to influence the nation's public opinion. This meant that they had to find someone to replace Qian Liren and Tan Wenrui immediately. Qiao Shi suggested Gao Di as a possibility, and Li Peng suggested that the army send someone, which was exactly what Yang Shangkun wanted. Yang Shangkun asked Yang Baibing to recommend someone, and the latter recommended Shao Huaze. With Deng Xiaoping's blessing, Yang Baibing told Shao Huaze to see Yang Shangkun, thus taking care of the important task assigned to him by the Central Committee. Yang also promised Shao Huaze that he could retain his army rank, and soon thereafter Shao Huaze took up his new post.

A Lucky Man in the CPC's Internal Struggle

Those who know Shao Huaze say that he is editor-in-chief of the official CPC newspaper and has gained admission to the highest level partly because of his political stand but to a larger extent because of circumstances.

Shao Huaze is a lucky man in the CPC's internal struggle. From the "cleaning up of spiritual pollution" to "June 4," Shao has had one door opened for him after another and has had nothing but good political fortune. He did not want to get involved in the struggle between the two forces, but he has become a beneficiary of one struggle after another. This is a common occurrence in China's political arena. Of course his good fortune is also attributable to his philosophy of life.

Shao Huaze came from a poor family. He has no family connections. He depended entirely on himself and his own hard work to take him from peasantry to the political arena and officialdom. His experience has made him very cautious in his political stands. Although for years he has been involved in political and theoretical writings and has published many articles, he is very good at being in control, at judging the hour and sizing up the situation, and he never goes to extremes. Judging by the opinions he has expressed since Deng Xiaoping advocated liberalized thinkings, he is by no means conservative, but he is definitely not one who chooses to "stand out." Among the forerunners of advocates of liberalized thinkings, such as Guo Luoqi [6753 5012 1015], Yan Jiaqi, and Li Honglin [2621 3163 2651], few are left standing today. Shao Huaze is acquainted with many heavy-weights in the political arena, including Hu Qiaomu, Deng Lique, Yuan Mu, and former deputy director of the General Political Department, Hua Nan [5478 2809], and his ascend indeed had something to do with those people, but he is never anyone's "cohort." It is for this reason that while some people have been toppled in the party struggles, Shao Huaze's political career has not been affected.

Shao Huaze Will Reach Even Higher

Shao Huaze no doubt knows that to be editor-in-chief of RENMIN RIBAO is to be at where the wind and the waves are the highest—in the center of controversies; his

boat could tip over—he could be toppled—anytime. For this reason he has deliberately kept a low profile since he took office and has seldom expressed his personal opinions. He has only published a few short articles since “June 4,” mainly on the state of the nation or to discuss new theories, and he has avoided getting directly involved in controversial or sensitive matters. Even when working with Gao Di, he tries to keep his distance. Thus in the top-level pro- and anti-reform struggle within the CPC, Shao Huaze has managed to avoid the spearhead. Meanwhile he has kept in close touch with

Yang Baibing who is controlling the army and has given the army much publicity in RENMIN RIBAO and has published several of Yang Baibing’s signed articles. Reportedly, Yang Shangkun and Yang Baibing are very pleased with Shao’s work in RENMIN RIBAO. We have reason to expect that as Yang Baibing gain power in the CPC, Shao Huaze will go places. Perhaps he will replace Gao Di as director, or he may take over the CPC Central Committee’s Propaganda Department, or he may return to the army to be in charge of the General Political Department.

NATIONAL AFFAIRS, POLICY

Yuan Baohua on Improving Contract System

93CE0117A Beijing QIYE GUANLI [ENTERPRISE MANAGEMENT] in Chinese No 10, Oct 92 pp 25-28

[Article by Yuan Baohua (5913 1405 5478), president of China People's University, Beijing: "On Improving the Contract Management Responsibility System To Promote the Transformation of Enterprise Operating Forces"]

[Text] The implementation of the contract management responsibility system (contract system) by our enterprises has been a major reform of our style of enterprise management (operation). The contract system was a pragmatic option, with a history now of more than a decade from its testing to its full implementation. Practice has proved that our developing enterprise contract system with distinct Chinese characteristics is one that is suited to the needs of the development of our productive forces in the initial stage of socialism, which has and is continuing to play an extremely crucial role in reforming our highly centralized planned economy, stimulating our enterprise and employee initiative, further revitalizing our state-owned, particularly large- and medium-sized, enterprises, and developing our society's productive forces. Comrade Deng Xiaoping's important speeches during a recent inspection tour of Capital Steel have reaffirmed Capital Steel's contract management experience. We certainly need to thoroughly understand the spirit of these speeches by Comrade Deng Xiaoping, in order to further improve the contract system based on a conscientious summing up of this experience, so that it will be suited to our development of a socialist market economy, and play a larger role in deepening enterprise reform and spurring enterprises to conscientiously transform (convert) their operating forces.

The contract system's vitality is that it conforms to China's national conditions, as well as to the essential need to convert our enterprise operating forces. For instance, since Capital Steel has been using the contract system, its output has increased at an average rate of 20 percent a year, it has invested 3.198 billion yuan of its own funds in 11 years, it has completed 103 key technological upgrading projects, its annual investment capability has exceeded 1 billion yuan, and its investment performance has been high at an input-output ratio of 1 : 2.47 yuan, or six times that of similar enterprises for the period. In these 11 years, Capital Steel has realized a cumulative 12.07 billion yuan in profits and taxes, of which it paid 68.6 percent in taxes to the state and kept 31.4 percent as profits, meaning more revenue for the state and revitalization for the enterprise. That Capital Steel has been able to become such an exceptionally large trans-industrial, -regional, and -national, mostly iron and steel enterprise as it is today, is inseparable from the greater operating independence granted to it by the state after it instituted the contract system. Capital Steel's experience shows even more importantly that a socialist

state-owned enterprise can be revitalized and run well through management reform that gives it full operating independence to develop through market competition and practice strict internal management. Enterprise contract management has also brought much improved efficiency to enterprises in certain other lines. Beijing Municipality statistics show that its 13 industrial enterprise head offices that began their second round of contracts in September 1991 are projected to pay 13.7 percent more into state revenue during the Eighth Five-Year Plan than they did during the Seventh Five-Year Plan, or an average increase of about 4.9 percent a year. It could be said that the contract system has actually taken the lead in speeding up our conversion of enterprise operating forces, separation of government administration from enterprise management, and division of powers, to form an effective enterprise stimulation force, while accelerating our development of a market economy and the growth of our ranks of entrepreneurs. In this sense, the contract system and conversion of enterprise operating forces have complemented and driven each other.

The contract system integrates macroeconomic objectives with microeconomic stimulation. Once enterprises implement contract management and acquire operating independence, their primary tasks are to ensure the growth of state revenue and a rational multiplication of state assets, by dealing correctly with state, enterprise, and employee interests, and through linking enterprise and employee interests to enterprise economic efficiency and contribution to the state, in order to stimulate enterprises and employees to go all out in overcoming difficulties and achieving the desired operating objectives.

As our contract system is still developing, it is quite natural for it as a developing thing to experience problems of one sort or another, such as the setting of contract bases, enterprises being responsible for profits but not losses, certain enterprises taking short-term actions, and some enterprises using retained profits improperly. I believe that these problems are fully solvable through deepening of reform and steady improvement of our market conditions, meaning that the contract system should not be negated just because it is experiencing certain problems. Meanwhile, as a detailed analysis of these enterprise contract management problems shows that some are caused by contract system imperfections, while others are not necessarily linked to the contract system at all, imputing all of them without distinction to the contract system is unfair, as well as not a contribution to their solution. Moreover, we must also understand that today's conditions are much changed from those in the early 1980's. For instance, our objective climate is different, we no longer have a single style of enterprise operation, and our market conditions, enterprise structures, and enterprise employee mindsets have all undergone great changes, which our improvement of the contract system must take into consideration

and adapt to. I am making the following recommendations for reference on improving the contract management responsibility system to promote the conversion of enterprise operating forces:

1. We need to focus our efforts on studying and exploring ways to improve the contract management responsibility system, and stop wasting our energies on the debate over whether contracting or "separation of taxes from profits" is best. Comrade Deng Xiaoping says that we should stop debating in the interests of seizing the time, instead of engaging in complicated controversies that debate away the time and allow nothing to be accomplished, meaning that we should stop debating to boldly experiment and make breakthroughs. He says that this is the way our rural reforms were accomplished, and this is also the way that our urban reforms will be achieved. While the contract system is one of the operating styles of China's state-owned enterprises, and the center's policy is to "persist and improve," while boldly experimenting with pilot projects in "separation of taxes from profits" and shareholding systems, I believe that China's hundreds of thousands of state-owned enterprises cannot be operated according to one centralized model. While a certain amount of debate over the emergence and development of new things is normal, incessant debate is bound to hamper the deepening of reform. As "genuine knowledge comes from practice," and practice is the most persuasive, we should let the verdict be reached through practice. So while I advocate stopping the debate, this certainly does not exclude the necessary theoretical and practical explorations of new conditions and issues connected with experiments. All of us need to focus our major efforts on boldly experimenting and making breakthroughs, in order to pioneer a better path. All new things change and improve through constant development, with the contract system being no exception, in that it cannot be considered perfect. Otherwise, how could it still be experiencing certain problems that need to be solved. Thus, it is hoped that both theoreticians and practitioners will focus their efforts on improving this system.

2. Our legal basis and standards of application for improving the enterprise contract management responsibility system should be the *Enterprise Law*, the *Contract Regulations*, and the *Regulations on Converting Enterprise Operating Forces*. While the rights granted to enterprises by laws and regulations must be implemented, enterprises must also either perform the duties stipulated by laws and regulations, or accept the corresponding legal, economic, and administrative responsibility. We now need to combine implementation of the *Regulations on Converting Enterprise Operating Forces* with strict enforcement of the second round of contract agreements, by further implementing enterprise operating independence, and improving enterprise personnel, labor, and internal distribution system reforms. We should make prompt recommendations on improving certain imperfect methods. For instance, the current overall workforce contracting system, which

gives employees too much mobility and ties enterprises' hands, is detrimental to employee stability and technician training. All of these problems are ones that we need to solve through studying deepening of reform to improve the enterprise contract system. In short, the crux of improving the contract system to convert enterprise operating forces is to act in accordance and enforce the law.

3. In order to improve our contract management responsibility system, we need to study its distribution problems, but even more importantly the problem of stimulus without restraint in the development of enterprise production operations. As the contract management responsibility system is based on state ownership, and uses profits to restrain and improve operating responsibilities, by closely linking duties, rights, and interests, in order to delimit the duties, rights, and interests of the state and enterprises, the contract system is not merely a profit distribution system. If we limit ourselves to distribution, it will be hard for us to eliminate the defects that exist in some enterprises, such as "short-term actions" and "improper use of retained profits." Improvement of the contract system must be focused on studying ways to improve enterprise operating responsibilities, in order to reinforce enterprise growth stamina, enhance enterprise might, and strengthen enterprise restraint forces. In order to improve enterprise responsibility in making up their own losses, the *Regulations on Converting Enterprise Operating Forces* stipulate that contract enterprises that do not fulfill their profit payment responsibilities to the state should make up shortfalls out of venture guarantee funds, wage reserve funds, and after-tax profits, which is one way to strengthen profit restraints. The particular forms of contract management should be suited to the various local conditions of different regions, industries, and enterprises, instead of demanding a single pace, tone, and form. Our advocacy of "two guarantees and one linking" certainly does not exclude certain feasible and effective contract forms, such as the input-output overall contract of "four contracts, four guarantees, and dual linkings" practiced by our electric power system. There is nothing wrong with diversification of form, which is the only way to achieve directed application and operation. As long as they help to stimulate enterprise and employee initiative, promote the conversion of enterprise operating forces, and improve enterprise economic efficiency or, in a word, contribute to the development of our productive forces, all forms should be encouraged and supported.

4. We need to study ways to set more rational contract bases, by further improving our contract target system, in order to make it more scientific and standardized. While improving the "hard targets" in contract system contracts, such as realized profits, technology upgrading input, and safety, we also need to reinforce "soft targets," such as the development of spiritual civilization in enterprises. For instance, we need to clearly set certain rational qualitative targets for matters, such as ways to raise the political and professional consciousness of

employees and the leadership, in order to adapt enterprise ideological and political indoctrination to the new developing circumstances, so that we can achieve a simultaneous emphasis on the "two civilizations." The key to scientific contracts is scientific and rational contract bases. Once scientific and rational contract bases are put into contract system contracts, they should be adhered to strictly, because it is only strict bases that withstand outside interference that can produce efficiency, while helping to prevent the tendencies to "take more from the best" or "protect the backward." In order to improve our contract target system to promote more rational contract bases, we need to better publicize certain good methods used in various areas, such as assessments of fund-profit/tax rates and assets proliferation targets, and conscientiously analyze new experiences and methods, so that we can adapt to new circumstances and solve new problems.

5. We need to emphasize the training of professional managers, in order to create a great corps of entrepreneurs. At this point, I would like to raise a matter for general discussion. Upon my return from a recent inspection tour of Zhejiang Province, I wrote a report for the Central Committee, in which I raised the matter of the professionalization of enterprise cadres. Since we began to reform and open up, while the group of young and middle-aged comrades and cadres who have risen to enterprise leadership posts, many of whom have made positive contributions, are well-experienced management and administrative professionals, some have been assigned to party and government departments, while others have been forced to retire due to age. I believe that practicing the same retirement system for key enterprise leading cadres as for those in state administrative organs (age 60 for males and 55 for females) is detrimental to building, creating, and strengthening the ranks of our entrepreneurs. Moreover, many of our current plant managers and factory directors are already well over 50, with even less being young females. As these older people are generally still full of vigor, rich in management experience, and politically mature, retiring them according to our current system is a loss for our country as well as for enterprises. I recommend appropriately adjusting the retirement ages for our enterprise plant managers and factory directors, in order to contribute to the creation of a corps of Chinese entrepreneurs. This also involves the relations between stipulated contract terms and factory manager tenure and retirement age. In short, I believe that it is essential to appropriately lengthen contract terms and factory manager tenure, in order to improve the contract system and train our ranks of entrepreneurs.

6. Improvement of the contract management responsibility system will require the following: 1) While adhering to our set policy of sound macroeconomic control with microeconomic deregulation, it will be even more essential to conscientiously improve our government responsibility and commitment to enterprises. We need to conscientiously standardize the contracting

actions of governments at all levels or responsible departments, so that they will provide practical contract management service to enterprises, which will actively promote the conversion of government functions. 2) While reinforcing the self-restraint forces within enterprises, we need to also enhance oversight systems, such as our state administration, legal, and auditing systems. Factory managers must continue to be subject to regular or outgoing economic responsibility auditing and evaluation systems, so that problems can be discovered and solved promptly.

7. Improvement of our contract management responsibility system will also require a solution to the problem of a few enterprises "substituting contracting for better management," by raising the awareness of contracting enterprises to enhance their management and administration, and to work for higher efficiency through better management. I recommended a few years ago the experience of Jiangxi cotton mills in "encouraging internal efforts, tapping internal potentials, and perfecting internal skills." Now another large number of good model-enterprise experiences warrant widespread study. We need to mobilize our media propaganda tools to fully publicize good enterprises and good contract forms, such as bringing grades up to specification, linking wages to efficiency, and practicing the property management responsibility system. While many of our enterprises have great internal potential, some of them are accustomed to looking outside for everything, so are unable to see their internal potentials as long as they can ask the state to devolve authority and concede profits. Looking to better management for higher efficiency is not an empty slogan. As there is an amazing difference between well- and poorly run enterprises, with key economic indicators in some industries differing by 100 or even 200 percent, looking to better management for higher efficiency is a real, practical matter. We need to change the "substitution of contracting for better management" to using contracting to improve management, by looking to strict management to improve our contract management responsibility system.

As the central government has called for further improvement of the contract management responsibility system, we need to conscientiously study and research Capital Steel's experience in strict management, implementing the responsibility system, and making great efforts along the lines of distribution according to work. Capital Steel's experience shows that using the contract system as a base on which to gradually convert enterprise operating forces, in order to revitalize our large- and medium-sized state-owned enterprises, is a fully feasible objective for getting good performance out of our large- and medium-sized state-owned enterprises.

Wu Jinglian on Establishing Foundation for Market Economy

93CE0049A *Chongqing GAIGE [REFORM] in Chinese*
No 5, 20 Sep 92 pp 4-11

[Article by Wu Jinglian (0702 2417 8834): "Moving Full Force To Build the Structural Foundation for a Market Economy"]

[Excerpts] 1. Time Has Come To Declare the Establishment of a Socialist Market Economy a Target of Our Reform

On the basis of actual experiences and the progress in theoretical research, an increasing number of people suggest declaring socialist market economy the objective of China's economic reform. Achieving this specific objective will have a far-reaching impact on China's modernization project, as well as on the development of socialist theory. [passage omitted]

As soon as Comrade Deng Xiaoping's speech about his southern inspection tour was published, the response from all cadres and from the masses throughout the country culminated in a great wave of enthusiasm, which quickly became an irresistible and ever more forceful upsurge of reform and opening up. The reason why the situation developed so fast was that his speech represented the current tide of history, and furthermore, fully accorded with the aspirations of the people. During the 13 years of reform, the market element had already grown up substantially in the various "cracks" and "fringe zones" of the then prevailing plan economy, and as a consequence the reform toward commodity (market) economy issue forth beyond its critical point and become irreversible. Presently, two sectors coexist in China's economy: one is full of vitality and energy; it is mainly composed of the nongovernment-owned economy which has grown up during the market-oriented reform; the other is composed of the majority of state-run enterprises which, because they are still under the control of various levels of administrative organs, and because their business mechanism did not undergo fundamental reform, show an evident lack of vitality; their equipment is outdated, their efficiency is low, and they suffer serious losses. A very obvious comparison of the different operational results of the two sectors proves incontrovertibly: without the highly effective market-oriented reform of 10-odd years, our party and our state would not be where they are today; only due to the rapid development of the new system of market economy was it possible to lay a solid foundation for the nationwide economic upsurge. Looking at the development of the socialist economy within China and on a global scope, we see that after undergoing many trials and tribulations and after the many ups and downs, many problems that have been argued back and forth for over hundred years have now found their appropriate resolution. The time has indeed become ripe to declare establishment of a market economy the objective of China's reform.

Comrades who oppose establishing market economy as the objective of China's reform may raise some doubts, mainly: 1) "planned economy is tantamount to socialism, market economy is tantamount to capitalism," that is a generally acknowledged rule; 2) operating a "market economy" means allowing this type of an economy to be subject to the vagaries of the blind forces of the market, which will in the end lead to "anarchy in production"; 3) the effect of the law of value will cause an extreme polarization of rich and poor.

All the above conclusions are unfounded and have already been proven wrong or revised in actual practice.

First, the thesis that "market economy is tantamount to capitalism, planned economy is tantamount to socialism" has never been verified, or is only—as it is said in an authoritative foreign dictionary of economics—a common bias of "doctrinaire socialists" or "doctrinaire antisocialists." As early as at the start of reform and opening up, Comrade Deng Xiaoping had said: to say that market economy is limited to capitalism is a wrong assertion. Why should socialism not be able to engage in market economy. Market economy had its start during the time of the feudal society, socialism too can practice market economy. The "Resolution" of the Third Plenary Session of the 12th CPC Central Committee (26 November 1979) accurately pointed out that the difference between the socialist commodity economy and the capitalist commodity economy lies in the difference of the basic ownership system, and in nothing else. The difference between the socialist market economy and the capitalist market economy lies, of course, also only in this point.

Second, planned distribution of resources can not at all guarantee a risk-free development of the economy. This has very early already been clearly acknowledged by Stalin in the realities of the Soviet economic development. On the other hand, on the basis of a perfect market, supplemented by planned direction, market fluctuations and serious risks can be avoided. In this respect, some understanding may be gained from the post-war development of the Japanese economy (actually not only Japan, the "four little dragons" and the "three little tigers" with their "Asia-Pacific patterns" of economies have practiced more or less this type of market economies under government guidance).

Third, the effect of the law of value can cause people richly endowed with resources to get increasingly richer, and people poorly endowed with resources to get increasingly poorer. However, practice has proven that extreme polarization in incomes can be prevented by merely: 1) observing equality in initial distribution; 2) realizing the principles of social justice by such measures as, on the one hand, initiating progressive taxation, and, on the other hand, instituting welfare measures for strata with low incomes. This will especially be possible under a social system where all political power is in the hands of the working people.

Some comrades have proposed to maintain the original term "socialist planned commodity economy" as used by the Third Plenary Session of the 12th CPC Central Committee. The advantage of this would be that it would conform with the "Resolution on the Reform of the Economic System," passed by the Third Plenary Session of the 12th CPC Central Committee, and would perhaps be more easily accepted by the people, but doing so would also have some serious shortcomings, mainly:

First, "commodity economy" is an expression in Russian which cannot be found in the original Marxist literature, and which is also not used in modern economic terminology. It cannot point out the method of special allocations of scarce resources, a method which reflects the special operational characteristics of the very nature of the economic system. If we use the term "commodity economy," a clear definition of its operational characteristics would require various additional explanations, which would not only be a waste of words, but would also be apt to lead to misinterpretations.

Commodity economy and market economy are two concepts that are related but also different; they are defining the same category of economy from different angles. Commodity economy defines the economic system by an external symptom, namely according to whether the product enters consumption through an exchange, while market economy defines the economic system by the internal characteristic, namely the allocation of social resources. Although commodity economy with a certain degree of socialization is actually market economy, the term "market economy" is more accurate and more distinctive than the term "commodity economy." At the early stages of China's historical development, commodity economy had already experienced a widespread development. At about the 10th century, China has already had paper currency, 600, 700 years earlier than Europe. Although commodity exchanges presuppose the existence of markets, in China's antiquity the market mechanism was not in the position of an axis for the allocation of social resources. It is, therefore, not so that the early maturity of commodity economy in China means that there was a market economy in antiquity. That shows that commodity economy is not at all definitely a market economy. Furthermore, the root of the various shortcomings in the traditional socialist economic system is to be found in the very method of operation, namely the use of a plan fixed by administrative authorities for the allocation of resources, and the only fundamental way to overcome this shortcoming is to thoroughly transform this pattern of resource allocation. To designate the essence of China's reform of the economic system as a shift from centralized planned economy to market economy is therefore reflecting even better the true substance of the matter.

Of course, merely using the term "commodity economy," may be an easier way to make those happy who are opposed to the allocation of resources through the market mechanism. However, this would not be the Marxist way of resolving problems in the attitude of seeking truth from facts.

In actual fact, the writers of the Marxist classics, Marx, Engels, and Lenin, have all along recognized that commodity production and currency economy are not compatible with socialism. If one were to tenaciously stick to the old concepts of doctrinairism, even the use of the term "commodity economy" or "commodity production" would not be able to extricate oneself from the dilemma caused by having an obsolete doctrinairism

alienate one from the realities of life. Continuing along the doctrinaire line of thought, one would be forced to seek evidence in the late writings of Stalin, and that, I am afraid, would at most lead back to the old formulation of the period from 1952 to 1957, namely that "socialist economy is a planned economy of existent commodity production and commodity exchanges." This is a formulation that most will not agree with, and that, furthermore, is no more used in documents of the central authorities after 1984.

Looking at the progress in China's reform of the economic system, we see that although the national economy is on the whole already monetized and commodity economy has made substantial progress, it is still not possible to say that China's market has already developed to a high degree of maturity. It is even less justified to say that market mechanism has become the fundamental means of allocating resources throughout the entire society. According to the analysis of modern economists, to have market mechanism become the fundamental allocator of social resources would not only require a pricing system that is able to reflect the degree of scarcity of resources, but also require to have enterprises that are independent and responsible for own losses and profits, and that can be sensitive in their reactions to the said pricing system. However, these fundamental conditions have presently not yet been fully developed in China, and that is particularly true in the state-run sector of the economy. There has been a serious delay in developing the market mechanism, a fact which has become the principal obstacle to a comprehensive upsurge in the national economy and the fundamental reason for the public sector (including the national budget and most state-owned enterprises) suffering from various shortcomings. Under these circumstances, gaining a deeper understanding of the market economy and also clearly designating market economy to be the objective of China's reform, is not only of major theoretical significance, but also of important practical significance.

As to the use of the adjective "planned" as a restrictive term in connection with commodity (market) economy, to avoid any misunderstanding or misinterpretation as if "pure market economy" was intended, that is also hardly a reason for maintaining any further this attributive term of the original formulation. This is so because among all the market economies in the real life of the modern world there is not one that does not have certain forms and certain degrees of macroeconomic control, government intervention, or planned guidance. Under these circumstances, it is absolutely unnecessary to especially denote that the market economy that we are proposing is a "planned" market economy. Furthermore, if we still remember the proceedings at the Third Plenary Session of the 12th CPC Central Committee, it was there that some people expended quite an effort in connection with this restrictive term, energetically trying to allow administrative type planning to maintain control over key

sectors. There is therefore even less reason for us to leave this loophole for another counterattack by representatives of ossified thinking.

2. Moving Full Force To Build the Structural Foundation for a Market Economy

All our numerous cadres as well as the masses have gradually become well aware of the task to build up a socialist market economy, and this demonstrates that the reform is proceeding in an excellent political atmosphere. In this situation, we must ourselves be very vigilant not to succumb to the idealist misconception frequently committed by theorists, namely that with a change in people's awareness or with a change in political formulations, everything in the material world will also correspondingly change. As materialists ourselves, we highly appreciate the precursory role of thought and theory, but this precursory effect is merely stimulating and facilitating, and cannot substitute for real transformations in the material world. Economic relations constitute one such real relationship in the material world. Acknowledging that the establishment of market economy is the target of our reform is already, as we have to admit, a huge progress. However, the ultimate target of the movement for reform is not at all merely raising it as an objective, but rather actually realizing this objective, or, in other words, the actual fact of instituting market economy.

If this conception is accurate, we must firmly determine that the task with which we are confronted is the endeavor to build in the shortest possible time the structural foundation for market economy. Although much still remains to be accomplished in continued efforts to straighten out our ways of thinking and in raising the consciousness of the cadres as to the political line, we feel that our energy must primarily be expended on building the structural foundation for market economy. Our task in this respect is an extremely arduous one, as there is a whole series of theoretical problems as well as practical problems that must be resolved.

First of all, it requires research and design of a specific target model.

During the discussions, many an economist has pointed out that every person engaged in actual reform must keep firmly in mind: what we are intending to build up is not merely a casual and random market economy, but rather a modern market economy. This is absolutely correct. It is my understanding that the so-called modern market economy means that in this economy, independent and autonomous enterprise organizations, a market system of a competitive character, and a new system of macroeconomic regulation and control will, to a certain degree, be developed, and that it will not become dominated by conditions as found in a primitive market economy, namely of insufficient market development, all-prevailing administrative interferences, and chaotic

and disorderly economic activities. What we intend to build up is, of course, a market economy of the above mentioned kind.

However, we must point out that there is also a great variety among modern market economies. Some are very effective, some are not so effective, some may even still be afflicted with very serious shortcomings. We must pick the best of them, the one market economy system that is designed in such a way that it incorporates our own special characteristics.

A hot topic of current international economic research is the comparative study of the U.S.-British market economy system and the Asia-Pacific market economy system, and also the German market economy system. Many do not hold a high opinion of the U.S.-British market economy system. The British economy began to go downhill from the middle of this century, and although the government of the Conservative Party made every effort during the last 10-odd years to save the desperate situation, they seem to have been unable to turn the tide in their favor. In the United States too the tendency during the last 20-odd years has been one of declining competitiveness, and for the last few years the country has been in the worst recession since the war, and whether it can make a steady recovery is an open question. These types of market economies are afflicted with some serious defects from macro- to microeconomic respects. For instance, their macroeconomic control and regulation is very defective, their savings ratio is very low, their technological progress is insufficient, management of their large enterprises is incompetent and shows declining vitality, etc. People are now busily analyzing the causes in the system or even in the cultural background (as e.g. the value concepts of individualism) that have brought about these deficiencies. As to the Asia-Pacific type of market economy, this was first practiced by Japan, later by the so-called "four little dragons" and the "three little tigers" and has apparently been very dynamic and vigorous. This type of market economy differs in all such characteristics as enterprise organization, financial and banking system, macroeconomic control by the government, "administrative guidance," etc. from the older type of market economy. Whether this model is truly more effective than the U.S.-British model, and why it might be more effective, is a matter on which opinions differ among economists. As we are now about to build up our own market economy, we must right from the start select the comparatively better fundamental framework. To accomplish this, we have to undertake a thorough comparative analysis of the market economy systems of all these countries so that we may be able to appropriately judge the advantages and disadvantages of the economic systems in the various economic models. This is the only way in which we will be able to build up, in accordance with our own national history, culture, tradition, and political and economic conditions, a market economy model that will suit our own special characteristics.

Second, it is necessary to formulate as quickly as possible an overall plan for intensified reform and to map out a plan for various reform measures.

When the 1985 CPC National Congress reviewed the experiences and lessons gained during the first stage of the reform, it was pointed out that the transformation from the traditional socialist economic system to the new economic system must be carried out as a composite and in mutual linkage of three elements, namely the reform of the state-owned enterprises, formation of a market system with a competitive character, and a new system of macroeconomic regulation and control. Because each of the above-mentioned three elements pointed out at the party congress is a complete subsidiary system of its own, the reform of the component parts of each subsidiary system must also be carried out as forming a composite part of the whole. As to the reform of the originally state-owned enterprises, it comprises a series of mutually linked elements, such as the clear delineation of property rights, establishing corporate-type organizations, transition from the original labor insurance and welfare system to a socialized social security system, accounts auditing, and other rules and regulations. Taking again the formation of a market system with competitive character as example, this system does not only comprise markets for commodities and services, but also markets for the key elements of production. The latter markets may again be divided into "land" markets (to include real estate markets, mineral resources markets, markets for resources from land reclaimed from the sea and from lakes, etc.), financial markets (to include monetary markets and capital fund markets), labor markets (to include ordinary manpower markets and markets for technical personnel and managerial personnel), etc. Establishment of these markets will obviously require to be carried out successively and in good order and in a well coordinated way.

Following the establishment of market organizations, it will be necessary to draw up a whole set of needed laws and other rules and regulations, to ensure the regular operation of the market mechanism. It is therefore urgently necessary to carry out in a planned way fundamental legislative work, such as concerning enterprises, the protection of fair competition, etc.

Since the reform toward market economy is system engineering of so huge a proportion, it is essential, in order to ensure the smooth completion of the new system, to map out in advance the overall plan for this engineering project and work plans for its various aspects. Because the objective and model of the reform has for a long time been left rather vague and had been reversed several times, and because the reform could be carried out only in a hit-and-miss way without the broad impact of an advance design in one's mind, planning and designing the reform has all along been a weak performance. During the period from 1987 to 1988, the State Commission for the Restructuring of the Economic System had organized a study and discussion for planning the middle stage (1988-1995) of the reform. Later,

this work was interrupted. Since March of this year, when the CPC Politburo passed a resolution to speed up the reform, it seems that planning work had not made too much progress. We have therefore not yet seen an overall plan or the design for plan execution mapped out by the responsible authorities. Obviously, there has to be a change in this state of affairs.

Third, there is a need for a strong and effective directional center and an organizational executive agency.

Engaging in a reform that involves the establishment of market economy is an extremely multifarious affair, and has to be carried out and coordinated by a certain authoritative agency. At the same time, because the reform which is to restructure the economy will unavoidably come in contact with already existing structures, it is bound to meet with all kinds of obstructions and hindrances; every reform measure can only hope to be implemented if there is an organized effort to overcome the obstacles. Furthermore, at the present stage when the reform is surging forth in a systematic assault, it has penetrated even more deep-rooted levels. The reform in some directions, such as the delineation of property rights, the determination of the management of public-owned assets, and the establishment of a new finance and taxation system, as well as of a new banking system, will certainly not be realized by any spontaneous movement from the lower levels upward, but must be carried out led on by an authoritative agency of the state. All these various factors make it imperative that a strong and vigorous high-level authority undertake coordination and organizational execution of the whole reform project. If it will not be done in this way, and matters will be allowed to drift, if each district, each sector, and each unit may at its own volition go ahead, adopting a kind of "first-strike" action without coordination, then, I am afraid, it will delay the progress of this reform and even be the cause of much trouble.

Looking back on the four months of work since the Politburo's resolution to step up the reform, it seems that the lower levels have more quickly reacted, while implementation by the upper levels had not been sufficiently forceful. There had been many general enunciations and appeals, but little concentrated direction and practical measures taken; the overall plan and the objectives at the various stages have not been sufficiently clarified. It all shows that there is a need to intensify the work of organizing the implementation of the politburo resolution. Enthusiasm among the masses is presently very high, they fervently hope for a rapid upswing in the modernization projects. However, if there is no great progress in substantive sectors of the reform of the economic structure, progress in establishing the new economic system will be delayed, there will be no marked rise in economic efficiency, and any advance of the modernization projects to a higher stage will lack its firm foundation. If progress in expediting the reform cannot be achieved in good time, and since no fundamental transformation has taken place in the operational mechanism of the state-owned enterprises, which occupy

a key position in the national economy, and they can only go on working with all their defects unrelieved, they will be unable to support any continued growth in the national economy. Under these circumstances, raising the growth rate can easily cause "overheating" of the economy and a currency inflation, and if that should happen, it will unavoidable be a setback for any growth of the national economy that has so far already been achieved, as well as for the trend toward reform and opening up. Historical experiences have proven that the fundamental way to prevent economic fluctuations and reversals in the reform is to place reform in foremost position, to less utter empty talk and do more practical work, and to actively promote reform.

Of course, if we mention that we must strive to achieve the fundamental framework for the establishment of market economy within the shortest possible time, it does not mean to say that everybody can immediately be aroused to precipitate action toward attaining our target in one great leap. Precisely the opposite is the case; what we want to emphasize is that establishing the fundamental structure for market economy means: planting one's feet on solid ground, starting with the fundamentals, and advancing step by single step. For instance, the reform toward the shareholding system is an important organic component of the reform of the economic system at the present stage, and the reform toward the shareholding system also comprises many aspects, from the establishment of companies limited by shares to the issue and trading of shares. There has to be a certain time order in the arrangement of our work; different times have different points of emphasis. The principle has to be to start out from the fundamentals, to advance in proper order, and one must not "climb up the wrong way" and go about it in a slovenly manner. For instance, a stock transfer market (second-rank market) must of course be established on the foundation of a well-established stock issue market (first-rank market) and on the foundation of sound operations of companies limited by shares. If no effort is made to establish this foundation while trying to stimulate the reform toward the shareholding system and the formation of a financial market by the widespread establishment of stock exchanges, the result will be that as soon as the stock exchange will open, prices for the small amount of shares being offered will skyrocket because of speculative buying and price-jacking. This sudden price boom for shares is brought about by too brisk a demand, and will not at all be supported by the issue of high dividends by the companies in question. Because speculative buying and selling can easily result in huge profits, opportunity costs of production and other undertakings will be extremely high. People will be attracted by the huge profits to be made in speculations and will not care about industry, so that the economy will in the end become "hollowed out" and "like an empty bubble." In the short-term view, this kind of "bubble economy" seems it can make those who participate in the speculative activities immensely rich in a short time. However, because the share prices that have been driven up have no

material wealth as foundation for any actual increase in value, they will sooner or later have to fall. The big explosion of the "balloon" can ruin the reputation of the reform and inflict a serious blow to the economic life. To ensure the healthy development of the securities market, it is therefore first of all necessary to make an effort to establish a sufficient number of companies limited by shares that conform to the prevailing international standards, and demand of them that they conduct their business according to the relevant laws and regulations, and that they also, according to international usage, publish their capital and the state of their business operations. It is only after this will have been done that we shall be able, with a perfect set of stock trading rules and regulations, and under the strict control of a stock exchange commission, to start stock trading. All the above-mentioned tasks are not easy to accomplish, and the result will depend on down-to-earth, arduous, and painstaking work. If we are not pressing on with this kind of fundamental work, if we will spoil things by excessive zeal, it will only mean ruining our undertaking by undue haste, and may even induce all kinds of troubles.

Of course, emphasizing the need for work on the fundamentals and for advancing in good order must not mean slowing down the pace to a crawl, or dawdling without progress, but rather that it is on the precondition of rapid work on the fundamentals that we must quicken the tempo of our progress in the construction of the new system, so as to establish the fundamental framework for market economy as soon as possible.

In our desire for rapid establishment of the fundamental structure for market economy, we are confronted with the contradiction of too many tasks awaiting completion and insufficient strength to accomplish all of them, especially in view of the shortage of manpower and capital funds. The development and operation of the market economy system requires a large contingent of skilled personnel who understand market economy and who are capable and enthusiastic workers, but what many of our cadres are familiar with are merely the conventional ways of plan control and administrative orders; they are therefore unfit to help in the quick development of market economy. Of course, during the actual future operations of the market economy, new cadres will emerge in large numbers, but this will require time. To meet the urgent needs for a rapid development of the reform, the following measures could be adopted: revising the various curricula and instructional methods of schools (including party schools) for the large-scale nurturing and training in rotation of cadres. Utilizing all information media, such as books, newspapers, and magazines, to spread basic knowledge of market economy. At the same time, we should adopt a variety of forms to attract, domestically and from abroad, highly qualified technical personnel knowledgeable in the operation of a market economy. We may, furthermore, promote to leadership positions such cadres who have a modern outlook on things, who are devoted to the idea of reform, and who have actually performed effectively. We

must, moreover, bring into the play the role of the government agencies in charge and the research sector. For instance, the functional government departments at all levels in charge of the reform of the economic structure and all advisory organizations shall within a short period of time put forward overall plans, coordinated with the development plan, for the reform of the whole system and plans for step by step implementation, as well as corresponding policy systems. We shall also, on a broad scale, call upon instructional and research staff at institutions of higher learning and at research institutes to participate in the study and discussions of these plans, and to present criticism and suggestion with regard to the work of the government.

PROVINCIAL

Update on Guangdong Price Reform

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[Article by Duan Qiuping (3008 3061 1627): "Report on an Investigation of Price Reform in Guangdong Province." Responsible editor Li Yumao (2621 1937 5399)]

[Text] To gain a more thorough understanding of the price reform in the special economic zone, China's State Commodity Price Administration dispatched several comrades to the cities of Guangzhou, Fanyu, Zhuhai, and Shenzhen in Guangdong Province for a 15-day tour of investigation from 23 June to 7 July.

I. The New Path of Price Reform in Guangdong Province

The underlying line of thought of Guangdong Province during its 13 years of price reform had been one of "integration of deregulation with adjustments, classified reforms, a double-track transition, new prices for new products, controlled deregulation, and progression in stages." It has wrought very distinct changes in the unduly centralized price management system and in the irrational pricing system:

A) Under the state's macroeconomic regulation and control, a new system, dominated by market prices, has taken shape. By the end of 1991, 89.9 percent of all retailed commodities in Guangdong Province were sold at market-regulated prices. If the further factor of grain purchasing and marketing prices were added—they have been deregulated since April of this year—the ratio of market prices would now be in excess of 92 percent. By categories of commodities, the prices of agricultural products, with the exception of flue-cured tobacco and silkworm cocoons, which remain under central government control, have all been deregulated. Prices for industrial consumer goods have been deregulated and are subject to market regulation, with the exception of over 100 kinds of medicines, cotton yarn, cotton textiles, raw materials for chemical fibers and plastics, plastic sheets

for agricultural use, pulp, newsprint, and other, altogether over 50 types of commodities. Even though prices for over 700 types of means of production are still directly fixed by the central authorities and the provincial authorities, the "dual-track pricing system" within or outside of the plan has for a long time already been generally in effect. According to statistics up to the end of 1991, 82.2 percent of all means of production had been sold in Guangdong Province at market-regulated prices.

B) The pricing system has taken a big step toward greater rationality. First, prices for the whole range of agricultural products have been deregulated, especially noteworthy is the deregulation of grain prices in April of this year, which the peasants called the "third liberation." Market-generated prices for agricultural products have benefited the well-coordinated development of the five branches of agriculture, forestry, animal husbandry, sideline production, and fishery, and have been helpful in narrowing the price disparity between industrial and agricultural products, that had formed in the course of the historical development. Second, the price parity relations within the industrial sector have started to become transformed from the original inequality of hardships in some sectors and great joy in other sectors toward an average profit ratio, as demanded by the "producer prices." For instance, during the period from 1978 to 1990, the average level of profits and tax returns was raised in the case of such branches of industry, operated by state-run enterprises of county and higher ranks, that operating at undue low prices and small profit: for the metallurgical industry from 34.9 to 72.1 percent; the chemical industry from 55.6 to 98.3 percent; for the construction industry from 43.8 to 71.4 percent; and the machine building industry from 41.5 to 70.7 percent. Where prices and profits had formerly been unduly high, levels were reduced: for the light industry from 238.9 to 169.8 percent, and the textile industry from 178.3 to 58.8 percent. These changes conformed with industrial policy and have been beneficial for a more rational distribution of society's resources.

C) Prices of the tertiary industries, which had been irrational for a long time, were also readjusted. According to the requirements of reform and opening to the outside world, Guangdong Province has repeatedly made rational readjustments of the charges for communication and transportation, postal and telegraph services, for public utilities in towns and townships, for medical and public health charges, and for similar charges. In particular, priority was given to development of communications and transportation, telecommunications, and public utilities in the cities. They adopted methods of accumulating funds and granting loans for the construction of bridges, the repair of roads, installation of telecommunications, and charging fees to compensate investments. In a few years' time, they constructed over 1,000 large bridges, so that no ferries were needed on all the state highways of the province, solving a long-standing problem that had been impossible of

solution for all the decades since the founding of the PRC. The solution of such problems as traffic, telecommunications, etc. created an excellent external environment for Guangdong's further expansion of opening up to the outside world.

After Comrade Deng Xiaoping's discussion of his southern inspection tour, the reform of commodity prices in Guangdong made further vigorous strides ahead:

First, prices for the purchase and marketing of grain were effectively deregulated, which truly made production, trading, and consumption of grain part of market activities;

Second, the commodity price control regulations, dating from the period of "improving the economic environment and rectifying the economic order," were adjusted. The basic method for doing this was to abolish all temporary control measures and continued broadening of the limits of authority for the control of prices of some commodities;

Third, acceleration of legislative work. Last year, in order to straighten out the indiscriminate levying of charges, the Standing Committee of the Guangdong Provincial People's Congress passed a set of "Regulations Governing the Levying of Charges in Guangdong Province." These were publicized as from the beginning of this year from top to bottom throughout the province. They demand in particular that the unit imposing the charges must have a special official who will collect the charges, and that he must have been trained in the policy governing the levying of charges, etc. This measure was highly effective in stopping the indiscriminate imposition of charges, and in reducing the indiscriminate levying of charges due to ignorance of the commodity price policy.

II. Guangdong Is Still Far From Complete Price Reform

Guangdong has been approved by the Central Committee and the State Council as an experimental zone for comprehensive reform. Thanks to the "specially favorable policy and flexible methods" granted by the Central Committee, Guangdong is one step ahead of the rest of the country in the reform of the entire economic system and also in price reform. Even though the ratio between state-fixed prices and market-adjusted prices in total retail sales of social commodities throughout the entire province of Guangdong is now 1:9, price reform has by far not yet been fully accomplished.

A superficial look already shows that Guangdong still has to continue with the deregulation of its prices, and that this has to take place in at least three areas:

First, as the central authorities will continuously deregulate prices for the more than 700 items of capital goods which are presently still under the control of the central authorities, the province too has the problem of deciding which to control and which to deregulate. There is much

friction especially in the area of the dual-track pricing system for capital goods there is much friction, and abuses are increasing daily. If nothing is done soon to combine the dual tracks into one, the development of a market for capital goods will ultimately be greatly harmed.

Second, it could still be possible to bring about a shift in the pricing mechanism for a portion of more than 100 medicines and over 50 items and commodities made by light industry, now under control of the provincial authorities, depending on the specific requirements.

Third, prices in the tertiary industries still need straightening out; for some trades of a competitive nature a market system should gradually be adopted.

Further, we must undertake the task of readjusting all state-fixed prices to enable them to become more rational, also of instituting their scientific control, so that these prices will conform to the demands of the law of value, and so as to have them promote the continuous, steady, and well-coordinated development of the national economy.

Pursuing the issue in greater depth, if we are intent on realizing the strategic concept of Comrade Deng Xiaoping, namely to overtake within 20 years the "four small dragons," and on complying with the need for further reform and opening up, there has to be an even faster development in the economy of Guangdong Province. As demanded by the operations of the commodity economy, it is necessary to establish a macroeconomic regulatory and control mechanism, which also includes a price mechanism. Especially because the Zhujiang Delta region borders on Hong Kong and Macao and has a predominantly export-oriented economy, it is necessary to establish a set of laws, regulations, institutions, and procedures, conforming to international practices and conducive to the development of the commodity economy. While we mainly relied on management through administrative measures during the period of planned economy, it is now necessary, at this time of developing a commodity economy, especially with the expansion of opening up to the outside world, to employ more and more legal and economic measures. Administrative measures may be only used to a limited extent. Speeding up legislation in the economic zone is, therefore, a matter of great importance and one that brooks no further delay. It is also only in this manner that in 1997 we shall be able to more effectively accomplish the reciprocal linkages necessary after the reversion of Hong Kong, that we shall retain the initiative in all the work that will then have to be done, and doing so will be more beneficial for the continued maintenance of Hong Kong's prosperity and stability.

III. Some Revelations Gained in the Course of Our Investigation

We have often heard the response from some comrades in the commodity price departments in the interior:

With the further progression of the reform, most commodity prices and charges for services will gradually be decontrolled, and this will leave commodity price departments with little work to perform. They are therefore passively awaiting the usual "closing down, stoppage, merger, and retooling" to accompany the reform of the organizational structure. We have to say, though, that price reform in Guangdong Province is one step ahead of the interior, and that deregulation has taken place there at a much larger ratio than in the interior, but comrades in Guangdong's provincial commodity price system do not at all find that they have nothing to do, but rather find that they have more to do than they can manage, that they are now shouldering a much heavier load, that they are facing many more tasks, and that more rigorous and higher demands are being made on them. For a long time, the Commodity Price Bureau has conducted its work according to the demands of the planned economy. Now that we are about to develop a socialist commodity economy, the former ways to which we had been accustomed are no more applicable, and the target of all work has also changed. It is therefore urgently necessary for us to promptly adjust the way we look at our work and to open up new fields of activity. In the long-term view, to realize Comrade Deng Xiaoping's strategic concept of establishing within 30 years a new economic system demands of us to start out from the national conditions of China, to follow advanced international experiences in our continuous experimentations, and to unceasingly forge ahead. In the immediate purview, there is now less work concerned with fixing prices, but there is an increasing volume of work of collecting charges and of administration. There is now less of direct control work, but a much heavier load of indirect regulation and indirect control work. Especially in some of the new fields that have come up in the course of developing our commodity economy, there is work to be done, for instance, to protect legitimate price competition, work to forestall monopolies, work to prevent unduly large profits, and work to prevent fraudulent activities. There is also work to be done to appropriately guide and manage deregulated prices. Furthermore, some sectors such as real estate, wholesale markets, stocks, debentures, exchange markets, etc. directly or indirectly affect prices. All these areas, therefore, require continuous study to acquire new knowledge, and continuous adjustments toward new work targets and new tasks. Considering the question of whether to maintain the price structure, there would be no need to expend too much energy. This must be a problem that requires an overall solution within the reform of the entire national structure. In the socialist commodity economy, management and regulation of prices is an important component of the management and regulation of the entire national economy, occupying the same important position within the entire system of economic regulation, control, and management as financial policy and currency policy. It is therefore definitely and undoubtedly necessary, regardless of changes in the structure, to have special personnel charged with commodity price work. The State Commodity Price Administration has the duty

and function to be responsible for effectively guiding the nationwide commodity price system toward an improved performance under this new situation. It must expeditiously delegate work to relevant subordinate agencies and indicate work orientation. This is one revelation we have gained.

The second revelation is that further emancipation of the mind is necessary for intensification of price reform. Most crucial for this is the renewal of concepts. When the party committee in the commodity price bureau of Guangzhou Municipality studied the important talk that Comrade Deng Xiaoping gave after his southern inspection tour, and when they linked it with the realities faced by the commodity price departments, they set forth four aspects where present concepts are not meeting these requirements:

A) Outmoded concepts are still firmly established while there is a deficiency of a realistic spirit; 2) there is intense departmentalism while the spirit of working as part of one team is lacking; 3) there is strong inclination to follow prescribed steps and an insufficient creativity as well as a spirit of daringly forging ahead; 4) there is too much power consciousness as well as deficiencies in the concepts as indirect controls and rendering services.

As we are developing a commodity economy, prices are part of the "commercial family," which means they are engendered through the exchange of commodities in the market. Prices should be put into the market realm; this is part of the irresistible tide of the reform. Overlooking this fact may cause us to lose our chance to reform. If we are to emancipate thinking in the commodity price system, it is, therefore, necessary that there is emancipation of thinking in the State Commodity Price Administration. We must focus our attention on the need to develop the economy along a new flight of steps, we must seize the present favorable opportunity of economic development and stability of commodity prices in the market, and courageously again push on with further price reform measures, just as the price reform initiated by Guangdong in April this year, the deregulation of purchasing and marketing prices for grain, which concluded Guangdong's 40-odd-year practice of rationing tickets, a feat of far-reaching historical significance. After deregulation, prices for third-grade rice and high-quality rice remained at the March level, a very good outcome indeed. Guangdong's reform of grain prices proves in actual practice that as long as the time for a reform is well chosen, its measures are appropriate, and arrangements carefully worked out, it is possible to courageously effect reform in the case of some highly important commodity prices. Particularly in the case of the 700-odd items of industrial capital goods which are still centrally controlled by the central authorities, one lot of them should first as quickly as possible be deregulated. Some prices for light industry products, agricultural products, and for the tertiary industries should also category by category either be effectively controlled where control is indeed necessary, but also gradually deregulated where such items should be deregulated.

The third revelation is that the State Commodity Price Administration should organize in a planned way research on some of the major price policies and problems. In the course of our investigations in Guangdong, we felt that there are at least the following major policies with which the State Commodity Price Administration should involve itself and organize research:

First, after the reversion of Hong Kong in 1997 and the implementation of the "one country, two systems" policy, how is their price policy to fit in with that of the Chinese interior; at least the price policy of the Zhujiang Delta region should more or less be uniform with that of Hong Kong. This seems to demand of us, objectively, to undertake research to formulate a price policy that is mutually compatible, and to research the drawing up of corresponding price laws, regulations, and institutions.

Second, if we intend to open up further to the outside world and attract more foreign capital, what kind of a price policy should we adopt for the entire area of foreign trade-oriented economic and technological development, for the opened-up cities, and for the special economic zones. In more specific terms, since we now have for the foreign-invested firms a price policy that is different from our policy for state-run enterprises, we are applying two different price standards, for instance, for water supply, electricity supply, etc. and if we go on like this, we must ask whether this is really beneficial for the initiation for fair competition.

Third, instituting an overall research into tertiary industry prices. Energetic development of the tertiary industries is a major struggle objective for the final years of this century. How, in line with state policy, to effect clear distinctions between different categories within the tertiary industries, how to gradually move trades of a competitive character toward the market system, how to ensure preservation and development for trades of a welfare nature, how to effectively control trades of a monopolistic character, all these issues require drawing up thoroughgoing policies, preconditioned by a general overall research. It is necessary, with respect to the price policy, that we create an excellent external environment for the development of the tertiary industries.

Fourth, price control for deregulated commodities has to be strengthened. Many comrades believe that as soon as prices have become deregulated, there is no further need for control. This is a huge misunderstanding. Even the United States and other Western countries practicing economic freedom reserve for themselves the right to intervene in different ways. It is then more justifiable for socialist countries to extend commodity price control over the entire society. What we now intend to change is merely the former control pattern in the narrow sense, namely merely the one that exclusively employed administrative measures, and to change to a system that is apt at employing a comprehensive set of legal, economic, and administrative measures to exercise controls. In the last few years, the commodity price

departments of some localities have gained much experience in this respect; for instance, in the legislative normalization of pricing activities after prices had been deregulated; making use of trade associations to effect trade guidance; setting up price regulating funds to effect price regulation; monitoring changes in costs; instituting an effective information service; and bringing fully into play the main state-operated trade and information channels. All these measures require further exploration and thorough research.

FINANCE, BANKING

'In-depth' Analysis of Loss of Bank Efficiency

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[Article by Han Keyong (7281 0344 0516): "An In-depth Analysis of Banks' Declining Efficiency"]

[Text] I. The State of Banks' Declining Efficiency

In this article bank efficiency refers specifically to specialized banks' efficiency; this is a combination of their social and economic efficiency. Its meaning includes their ability to use the least amount of loan funds to gain the greatest economic value; to spend the least amount of loan funds to obtain the greatest amount of fund value; and to put in the most reasonable amount of credit funds in the best direction to generate the most effective financial use and in turn to promote the maximum amount of sustained, steady, and smooth economic development and financial prosperity.

Whether banks are efficient or not should be evaluated comprehensively from the point of the profitability, liquidity, safety, etc., of their credit funds. Profitability, liquidity, and safety are the intrinsic requirements of the law of motion of credit funds. Profitability is an important characteristic of credit funds—higher profit means higher input-output level and higher use-efficiency. Liquidity means that in the circulation process, credit funds can be put in and taken out at will and are circulating continuously. For a fixed amount of credit fund, the higher the velocity of circulation, the more effective a role the money plays and the more wealth it creates. Safety refers to the ability to retrieve the funds without incurring losses. If loans cannot be recovered on schedule, if they turn from short-term into long-term loans, if instead of being overdue loans they become defaults or bad debts, it will directly threaten the banks' survival.

If we look at the current profitability, liquidity, and safety of banks' credit funds, it will not be difficult to conclude that there is no room for optimism. The grimness of the situation is evident in the following five areas:

A. *The input of bank loans exceeds all economic justifications, which leads to a decline in credit fund profitability:*

Bank credit is a basic element in the commodity economy and is a decisive force in the functioning of the

national economy. Massive increases in loan funds that are beyond all reasonable justifications will not only not increase credit fund profitability but will actually put us on dangerous ground where the economy may overheat again and inflation may bounce back.

If we examine the economic and financial situations in recent years, it will not be difficult to see that the increase in bank loans has far exceeded the economic growth rate. Between 1988 and 1990, bank loans increased by 685 billion yuan, an increase rate of 71 percent, while the total economic growth and inflation rate came to only 40 percent. In 1991, bank loans increased by 289.5 billion yuan, exceeding the rate of economic growth by 16 percent. This means that, out of the 974.5 billion yuan increase in bank loans between 1988 and 1991, about 250 billion yuan worth had no economic justification.

Between January and April 1992, in contrast to the usual rule of seasonal decline, bank loans of all types continued to increase each month. The loan volume increased 260 percent compared to the same period in 1991. Even if we allow for the fact that this year loans to pay off fixed assets were made available earlier than scheduled, loans in the first four months of this year still increased 112 percent compared to the same period in 1991. The amount and the rate of increase in loans in the first four months of this year had their logical reasons, but it is worrisome that: 1) The rate of increase in loan funds exceeded by far the rate of economic growth. In the first four months nationwide, industrial output value at the township level or above increased 18.3 percent compared to the same period in 1991. 2) Fixed asset investments increased at a fairly high rate. In the first four months, fixed asset investments in the ownership by the whole people system rose 38.6 percent compared to the same period in 1991. Many of the investments were in new projects, while the percentage of investment in basic industries actually fell. Of the total input of renovation and transformation funds, 37 percent—only 1.9 percent more than in the same period in 1991—was spent on increasing output. 3) In the first four months, despite the fairly high rate of increase in production and investment, stockpiles of enterprises' finished goods increased, large amounts of the "three types of funds" were taken up rapidly, more enterprises were losing money and in greater amounts than earlier in the year, and electricity and transportation shortages worsened. Statistics show that in the first four months of this year, finished goods from budgeted state-run industrial enterprises took up 20.2 billion yuan more than in the beginning of the year, the number of money-losing enterprises increased by nearly 7 percent, and total losses increased 8 percent compared to the beginning of the year.

Because the excess credit fund inputs were beyond all economic justification, credit fund profitability has followed a downward trend in recent years. In 1990, the circulation fund loan input-output ratio of the nation's budgeted state-run industrial enterprises was as high as 8:1. According to a recent survey of the province's 103

industrial enterprises conducted by Shanxi's people's bank at the end of March 1992, the profit tax to capital ratio was only 14.5 percent, 3.68 percentage points below 1991's level. The ratio of profit to income from sales was 11 percent, 3 percent below 1991's level in the same period.

B. Credit fund turnover has slowed, and there are abnormalities in the way funds are being taken up.

According to a survey of the nation's 40,000 state-run industrial enterprises conducted by the Commercial and Industrial Bank of China in 1990, circulation funds in general took 90 days longer to turn over and the fund to sales ratio was 25 percent higher than in 1985; the turnover rate from industrial circulation funds (income from sales/average loan balance) was 3.5 times, a 25 percent drop compared to 1989; industrial circulation fund loans took 60.6 days to turn over, 10.90 days longer than in 1989 and the slowest rate in history. According to figures compiled by other departments, out of the nation's current credit loan balance of more than 1.6 trillion yuan, approximately over 1 trillion yuan worth is excess funds in use. This means that between 1988 and 1991 almost all of the banks' 75 billion yuan worth of additional loans were either taken up or absorbed by enterprises, and it is unlikely that they will ever be recovered.

C. Banks' increase in credit has lost efficiency.

Credit-increase efficiency is the ratio between the increase in GNP and the increase in bank credit. It is an important indicator of bank credit's socioeconomic efficiency. According to estimates from the People's Bank, in recent years efficiency of bank credit increase has fallen sharply. In 1989 and 1990, credit-increase efficiency was 45 percent and 30 percent respectively—48 percent and 63 percent below 1985's rate of 93 percent. This implies that, to maintain the same rate of economic growth, we must pay the price of even greater credit inputs.

D. The failure to recoup bank credit funds on schedule threatens fund safety.

Because credit fund turnover has slowed and profits have slipped in recent years, many loans are not recovered on time. According to a survey by the Agricultural Bank of China, at the end of 1990 16.6 percent of the loans were past due, in arrears, or written off as bad debts. According to another survey by the Construction Bank of China, at the end of 1990 13.2 percent of the loan balance was extraordinary loans.

E. Banks are incurring heavy losses.

Many banks are losing money because of the decline in credit fund profitability and because many loans cannot

be recouped on schedule. A survey of 1,708 banks and credit cooperatives in Shanxi showed 65.96 percent of them lost money in 1990.

II. Causes of Decline in Bank Efficiency

A. The prolonged coexistence of the old and new systems, and conflicts between the two, have made it difficult to regulate and control the money supply.

Although the restructuring of the economic system has lasted 13 years, for various reasons the new system is still in an exploratory stage, and the old system still plays a role in the economy. The prolonged coexistence of the two systems and the conflicts between them have made it difficult to "simultaneously eliminate unnecessary control and prevent inflation, to uphold the superior and eliminate the inferior while maintaining social stability, and to concurrently develop production and keep the rate of development under control." As a result, the national economy is showing signs of instability, and regulation and control of the money supply is trapped in a vicious cycle of "expansion, contraction, re-expansion, and re-contraction."

Since 1984, China's bank credit has gone through three expansion and two contractions. In the process, national economic development has suffered a severe shock. In 1984, the rate of loan increase exceeded the rate of economic growth by 18 percentage points; currency in circulation (M_0) increased faster than economic growth by 35 percentage points; currency plus current deposits (M_1) increased faster than the growth rate by 17 percentage points, and the price index rose from 1.5 percent in the previous year to 2.8 percent that year—inflationary pressure clearly increased. Under the circumstances, the central bank was forced to implement a tight money supply and tight credit policy. In 1985, loan funds increased 23.9 percent, 9 percentage points less than in the previous year, and both M_0 and M_1 fell 23 percentage points, which greatly eased the inflationary pressure. In the meantime, we experienced negative economic growth in 1986 for the first time since reform began; the growth rate fell 4.7 percent compared to 1985. To support a proper economic growth rate, the central bank began to increase credit in the latter half of 1986, which directly led to runaway inflation in 1988. In 1988, the increase in M_0 exceeded the rate of economic growth by 36 percentage points, and M_1 exceeded the growth rate by 12 percentage points, while the retail price index rose 18.5 percent. To curb the serious inflation, the State Council decided to spend more than three years on rectification and improvement, beginning in 1988. Consequently, credit entered a second round of contraction. In 1989, loan funds increased only 17.6 percent, M_0 increased 9.8 percent, M_1 increased 6.2 percent, and the retail price index fell 17.8 percent. Unfortunately, we experienced negative economic growth again in 1990, and we are still coping with it today. After rectification and improvement, theoreticians' debate still focuses on what monetary policy the central bank should adopt in order to bring us out of this vicious cycle of "expansion,

contraction, re-expansion, and re-contraction" and put the national economy onto the track of sustained, steady, and smooth development.

B. We have a full amount credit management system.

Beginning on 1 July 1983, the state-run enterprises' circulation funds were no longer supplied by the financial ministries and banks; instead banks became the central supplier and manager. Since banks took over the centralized management of circulation funds, enterprises have two ways to get their development and production funds: get part of it out of their after-tax retained profit, or apply for a bank loan. In reality, because the policy is not clearly written and because old enterprises are heavily burdened with technological transformation responsibilities, the idea of enterprises supplementing their own circulation funds is but an idle theory. In reality, all enterprise circulation funds come from banks, and once again, they have reverted to "full amount" loan management, deviating from the original intent of reform. Looking at the yearly change in bank circulation loan funds between 1984 and 1991, we will notice that the years 1984, 1986, 1988, 1990, and 1991 marked times of super-high rates of increase—over 20 percent a year. The years 1987 and 1989 marked high rates of between 15-20 percent a year; 1985 was a year of moderate increase, at a rate of 13.4 percent. In 1990, society as a whole had a base amount of about 1.9 trillion yuan in circulation funds—15 percent of which was self-owned circulation fund shortfall and about 80 percent of which was circulation fund loans. This growth pattern shows that since banks assumed centralized management of circulation funds, the funds available for loans have surged, making bank credit more risky. In particular, because many businesses, enterprises, and products that developed in the overheated economy in the last few years are no longer in an environment where they can continue to survive and develop, the funds are trapped in a vicious cycle where they are stagnant, in default, or else are lost as soon as they are put in. As a result, some of the loan funds have lost their utility, because they have become stagnant or dissipated funds.

C. Financial and monetary relations are distorted, and increasingly credit funds are identified with public finance.

Since reform, the pattern of "emphasizing the Ministry of Finance and de-emphasizing banks" has changed, but financial and monetary relations are still tangled. "Financial orientation" of credit funds is still a very serious problem. "Financial orientation" of credit funds refers to enterprises using loan funds to fulfill their tax obligations, banks assuming the finance ministry's social security responsibilities, and the finance ministry taking up huge sums of bank credit funds through allocation shortfalls, subsidy shortfalls, failure to rebate taxes, bank overdrafts, and bank loans, thus undermining the functions of bank credit. Statistics show that at the end of 1990, the Ministry of Finance took out as much as 90.8 billion yuan in the form of bank overdrafts and loans,

and in the first nine months of 1991, it took out another 12.6 billion in the form of overdrafts and loans. In 1990, the ministry's allocations and subsidies fell short by 23 billion yuan, and Shanxi incurred 658 million yuan in losses due to financial allocation and subsidy shortfalls, which basically had to be made up with bank loans. Nationwide, 50-70 percent of the fiscal revenues were created each year by swallowing up bank loans. This is the same as using large sums of credit funds to plug up the giant hole of revenue shortfall.

D. The weakened credit management directly undermines bank efficiency.

Banks are important functional departments that regulate and control the national economy. Their credit fund inputs must firmly uphold and implement the state's general and specific financial policies and credit principles and guarantee reasonable and accurate input direction and amount and exceptional profit. But in recent years, because of unhealthy party style and social tendencies, bank loans have displayed all sorts of irregularities: 1) In some banks and offices, the managers directly allocate the loans. Credit officers only write the checks, which grossly violates credit management procedure and examination and approval procedures and substantially diminishes bank loan safety and efficiency. 2) Some credit officers do not do credit checks and hand out loans arbitrarily. Examinations before, during, and after granting loans are important means to guarantee accurate fund input, proper loan amounts, and exceptional profits. Some credit officers stay in the office all day long. Their investigation before and during the loan process has nothing to do with enterprises' actual production and management; rather, they are based on the financial statements, and consequently granting of loans is not reliable, which makes them more risky and adds to losses of the banks. 3) "Favor loans" and "relationship loans" are prevalent despite the ban; they seriously violate banks' credit principles and cause errors in assessing the loan direction and amounts and contribute to stagnant and lost funds.

E. Specialized banks cannot operate like enterprises.

Since the restructuring of the economic system, corresponding reforms have been made to the financial system, but due to various constraining factors, it has been very difficult for specialized banks to operate like enterprises. In terms of fund supply, specialized banks still "eat out of the central banks' big pot," and grassroots specialized banks still "eat out of higher level banks' big pot." The credit fund supply system has not been eliminated. In terms of the financial system, specialized banks still follow the format where "management is graded, losses and profits are centralized, outlay is controlled, and profits are handed over to the higher level." Specialized banks' realized profits are not linked to workers' benefits, and as a result some banks do not bother to keep books. They lend money arbitrarily and

spend it recklessly. All of this seriously jeopardizes normal bank operations and prevents any improvement in bank efficiency.

F. There is no financial order and specialized banks compete in a disorderly fashion.

Engaging in fair business competition is an important means to entice specialized banks to operate like enterprises and improve their economic efficiency. But competition among China's specialized banks has turned reckless and disorderly. To capture more savings deposits and other businesses, banks set up savings outlets in cities, villages, and even in remote mountain areas. In the late 1980's, they repeatedly engaged in large-scale "savings wars" and "interest wars." As a result, we have a great number of outlets and many luxurious bank buildings. Banks bought land at high prices, rented expensive properties, and used expensive gimmicks to impress their clients and each other. Larger organizations required more staff and more expenses, which increased the specialized banks' operating costs.

G. The interest policy has its impact.

The interest rate policy has the following impact on bank efficiency: 1) Deposit and loan rates are inverted. From 1980 to 1989, the state raised deposit and loan rates 13 times but still failed to solve the problem of inverse deposit and loan rates. To ease enterprises' interest burdens and get urban and rural markets moving again, it has lowered deposit and loan rates three times since 1990. But the new deposit and loan rates are put into effect on different dates, and rates are lowered by different amounts. With regard to not-yet-matured term deposits, the higher rates are not affected and the old rates prevail but interest rates on loans are readjusted prorata; in addition, banks still have to extend many loans at preferential rates, and as a result, there is little difference between deposit rates and loan rates. In some cases they are inverted, depriving banks of their reasonable profit. 2) The interest structure is unreasonable. Because interest on demand deposits is too low, there is a big interest difference between term and demand deposits. For the same 10,000 yuan deposit, a one-year term deposit pays 756 yuan interest while demand deposit only pays 180 yuan. This is a ratio of 4.2:1. Thus many people do not want demand deposits, and the whole deposit structure is distorted, which adds to the banks' cost of attracting deposits. According to Shanxi's agricultural bank, 10 percent of all savings accounts opened in 1990 were demand deposits and 90 percent were term deposits; the absolute majority were term deposits. Lingchuan County's agricultural bank's figures for the end of 1990 and the end of April 1991 show an even higher proportion of term deposits—92.3 percent and 93.9 percent, respectively. 3) Banks do not have effective means for collecting interest and their interest settlement method is incorrect. Thus they cannot collect interest on loans in a timely fashion.

H. The change in banks' deposit-liability structure adds to their interest expenses.

Since reform and opening up, banks' deposit-liability structure has changed drastically. The deposit-liability structure once dominated by public finance-type deposits and enterprise deposits has gradually given way to a deposit-liability structure dominated by personal deposits. In 1990, personal deposits accounted for 50.7 percent of all deposits—compared to 18.2 percent in 1978—thus completing the trend of this historical change-over. Today, personal deposits have surpassed the trillion-yuan mark.

The increase in personal deposits adds to banks' interest burden. From 1980 to 1990, annual interest expenses increased 1.7 billion yuan. In 1989, interest payments came to 13.8 billion yuan; in 1990, they soared to 60 billion yuan. In addition, beginning in 1989, the low interest on enterprise deposits was raised to the level of regular savings deposits, and 60 percent of deposits by organizations and groups now earn interest. The increase in the types of interest-bearing deposits, the higher rates on enterprise deposits, and particularly the increase in personal deposits—at a rate of 30 percent—have resulted in a heavier interest burden for banks.

I. Administrative interference on the part of local governments adds to bank loan risks.

China began implementing a graded financial contract responsibility system in 1980, which greatly mobilized localities' enthusiasm in generating more income. This no doubt is a great improvement over the financial system in which the central authorities monopolized all income and expenditure. But this system has produced local interest groups that only seek to protect local interests at the expense of the state's overall and long-term interests. In order to raise more profit taxes and increase local benefits, localities recklessly develop local processing industries, or even industries that are not compatible with state industrial policy. Under a tight money situation, in order to accelerate local economic growth, some local governments resort to administrative interventions and force banks to make so called "policy-oriented loans" and expand the loan scope. They make banks violate their loan principles, increase loans that violate the industrial policy, and make it difficult to allocate loan funds in compliance with state industrial policy. Low efficiency and inefficiency are a serious problem.

J. There is widespread loss of economic efficiency, and enterprises are unable to repay their principal and interests.

The history of world economic development shows that the better developed the commodity economy, the closer the ties between banks and enterprises. The economy dictates the financial situation and the state of enterprise operation and directly constrains bank efficiency.

In recent years, because of the state's diminished macroeconomic control and regulation capabilities; because

we have been slow to make structural adjustments to the existing stock; because enterprises are poorly managed internally, have grave technological transformation responsibilities, and are operating under the burden of huge debts; and because enterprises lack the management mechanisms that enable them to survive on their own and improve themselves, many enterprises are showing sharp declines in economic efficiency or even incurring losses. Data show that in 1991, the budgeted state-run industrial enterprises lost 31 billion yuan, and 29.7 percent of them were losing money. If we included businesses other than the industrial enterprises, the nation's budgeted enterprises' loss would currently be in excess of 100 billion yuan. In addition to overt losses, enterprises also have huge hidden losses. According to a survey of typical enterprises by the Industrial and Commercial Bank of China, hidden losses are 2.72 times the amount of overt losses. Nationwide, around 80 percent of the budgeted industrial enterprises have incurred hidden losses to various extents. Today, one-third of the nation's state-run enterprises are losing money, one-third are reporting profits but are actually losing money, and only one-third are truly profitable. Looking at the pattern in recent years, enterprise losses are climbing steadily, with no sign of abating. Between March 1988 and March 1992, enterprise losses increased at an average rate of 65 percent a year. Among them, policy-induced losses were increasing the fastest, at a rate of 114 percent; hidden losses were next, at 61 percent; and operational losses were increasing at an average rate of 43 percent a year.

Because of poor enterprise economic efficiency, many more enterprises are defaulting on their interest payments. In 1991, Yanbei Prefecture's Industrial and Commercial Bank only recovered 92.8 percent of interest due, which was 4.1 and 6 percent below the levels in 1990 and 1985 respectively. It had as much as 18.01 million yuan in uncollected interest due, an increase of 5.6 million yuan and 17.65 million yuan, respectively, compared to 1990 and 1985. At the end of March 1992, interest due but uncollected increased to 22.85 million yuan; interest in arrears was 40 times the amount of the bank's total loss, which seriously undermined the normal circulation of its credit funds.

K. The increase in policy-induced loans jeopardizes bank profit.

Banks' policy-oriented loans are a special concept developed during the transition from the old to the new system and as a result of the tight financial and fund situation. They differ from operational loans in that they are essential to the national economy and the people's livelihood; they generate low microeconomic efficiency and low short-term profit; and they are loans mandated by government orders which banks are obligated to grant. They have the following characteristics: They generate good social benefits but low near-term profit,

they are long-term, low-interest loans, they do not circulate well, and they are high-risk loans. In recent years, banks are increasingly burdened with such loans in the form of poverty-relief loans, disaster-relief loans, developmental loans, agricultural sideline product loans and other policy-oriented loans. For example, Houma City's Agricultural Bank is responsible for supplying the provincial supply and marketing cooperative's Houma Cotton and Linen Transit Station with 30-40 million yuan in cotton procurement funds each year. The interest rate on this kind of loan is 0.6 percent below other circulation fund loans, and although the People's Bank makes up 0.3 percent, there is still a 0.3 percent shortfall. Based on an average annual loan of 30 million yuan, this means 90,000 yuan less in interest income.

L. The complicated, interlocking chain of debt reduces credit fund mobility.

Despite repeated efforts by banks and the government to sort out enterprises' "triangular debts" and their input of huge sums of start-up funds, enterprises are incurring more debts as they pay off old ones and are getting deeper in debt at every turn. They are tangled up in a complex interlocking chain of debt. At the end of 1987, inter-enterprise debts nationwide totalled 27 billion yuan. This figure increased to 124 billion yuan at the end of 1989 and rose to 144 billion yuan at the end of 1990; it surpassed the 300 billion mark by the end of 1991. These debts accounted for 20 percent of the nation's total bank loans. Mounting inter-enterprise debts are very dangerous for the following reasons: 1) They cause the flow of funds and the flow of goods to separate. A substantial portion of funds can no longer be exchanged for goods and vice versa, which obstructs credit fund circulation. 2) The large and medium-sized enterprises either have to shut down or stop paying wages; they cannot sustain reproduction, and readjustment of the industrial structure and product mix is slowed. To save the large and medium-sized state-run enterprises and safeguard social stability, banks are forced to extend more loans to show support. This not only adds to enterprises' improper use of funds and their interest burden, but it also adds to banks' unreasonable loan volume, obstructs normal circulation of credit funds, and reduces fund mobility.

III. Ideas and Measures for Improving Bank Efficiency

In view of the above problems, it is the author's opinion that in order to improve bank efficiency and end our present predicament, we must address the problems at different stages of our economic lives, study the specialized banks' external and internal operating environments, and adopt countermeasures in stages. Currently, some feasible measures are:

A. We should improve the external environment and create conditions for improving bank efficiency.

To improve the specialized banks' external operating environment, we can start with the following: 1) Reform the central banking system and reinforce the central

bank's independence so that it can implement independent monetary policies and guarantee that currency issues are not decided by how much money the government and enterprises need but by what economic development needs. 2) Reform the specialized bank system, putting specialized banks in the market so that they can operate as enterprises. Today, specialized banks should keep separate accounts of their policy-oriented business and operation-oriented business and manage them separately. 3) Reform the fund allocation system and promote the lateral flow of funds. 4) Vigorously develop non-bank financial institutions and provide enterprises with various types of non-bank financial services, such as securities, insurance, and trust. 5) Rectify the relationship between banks and the finance ministry, banks and local governments, and banks and enterprises to protect banks' legitimate rights. 6) Correctly handle the central-local relationship and use the law to constrain local governments' economic behavior. 7) Adjust the interest rate policy properly and solve the inverse interest rate problem. 8) The Ministry of Finance should gradually compensate enterprises for policy-induced losses. 9) We should change enterprise operating mechanisms and accelerate enterprise reform. 10) We should use economic, administrative, and legal means to sort out "triangular debt" as soon as possible.

B. Banks must strengthen internal management and strive to increase revenue while reducing expenditure.

While improving the external environment, strengthening banks' internal management is also the key to improving bank efficiency. Strengthening banks' internal management can proceed in the following way: 1) Strengthen quality awareness and education and cultivate the idea that quality comes first. 2) Optimize the deposit-mix and lower cost of funds. 3) Readjust the loan structure, demand efficient use of funds, and use funds mainly for supporting enterprise technological improvement and combining or merging enterprises. 4) Set strict spending limits and standards. 5) Develop a strict loan management system to reduce loan risk.

People's Bank Deputy Governor on Financial Reform
93CE0164A Beijing JINRONG SHIBAO in Chinese
23 Nov 92 p 3

[Article by Zhou Zhengqing (0719 2973 1987), Deputy Governor, People's Bank of China: "A Socialist Market Economy and Deepening of Financial Reform—Colloquy on a Socialist Market Economy" (17)]

[Text]—The goal of finance and banking reform must be to establish a macroeconomic regulation and control system in which regulation and control is largely indirect that provides sufficient currency to meet market operating needs, as well as a financing system that apportions capital on the basis of economic returns.

—Conditions must be created to enable a separation of credit provided for policy reasons from commercial

credit, a beginning made in founding banks for policy purposes that undertake to provide credit for policy reasons, and transforming the operating mechanism of the specialized national banks in a planned, step-by-step way so that they gradually become commercial banks.

- Use the existing regional borrowing and lending markets within trades as a foundation for the gradual fashioning of a nationwide unified capital lending market. While developing bond markets and foreign exchange markets, share market pilot projects should continue to be run.
- Conversion of the long-standing "large common pot government capital" mechanism to "large common pot credit capital" for the most part. This occasions substantial difficulties for the next step in transforming the finance and banking operating mechanism to a market economy system; thus, a very good solution to this problem must be found.
- A number of regional joint-stock cooperative system commercial banks should be founded by suiting general circumstances to specific situations. Consideration is currently being given to the founding of urban cooperative banks using the existing urban credit cooperatives as a basis.

The "socialist market economy theory" that the 14th Party Congress proposed, which clarifies the goals and model for the next step in economy reform, holds extremely important and far-ranging significance for China's future economic reform. My understanding is that the basic nature of a socialist market economy is one in which the market mechanism is the basic means for apportioning resources in society under state macroeconomic regulation and control, economic activity thereby abiding by the requirements of the laws of value and meeting changes in the correlation between supply and demand. State control over the economy will gradually change from the former emphasis on plan control of physical things to indirect control of value, guidance in the direction of the flow of funds being relied upon to spur the organization of key production elements in the state's direction of the macroeconomy. It follows from this line of thinking that reform of China's finance and banking system will have to accelerate further, a substantial turn around made all the way from ideological concepts. We must be fully prepared for this.

1. The Problem of Ways To Allocate Funds Under a Market Economy System

In the highly centralized planned economic system that China used for a long time, planning methods were used to allocate social resources and organize socio-economic activity. Under this system, physical production plans were the main means used in allocating resources, all of the elements of production moving in concert and combining as physical production plans required. As a production element, capital (including both government funds and credit funds) was also distributed entirely in

accordance with physical production plans, i.e., "goods went where the money was." Of course, the attendant banking system was also a structurally undiversified, highly centralized "great unifier" banking system that "unified savings and credit, and unified receipts and expenditures." This system played a positive role in the building of China's economy, particularly during the 1950's when it concentrated funds to carry out key construction that lay the foundation for later development of the country's economy. Nevertheless, with the passage of time, subjective practice showed that when multifarious and complex economic activity relies solely on plan, plan does not do a very good job of allocating social resources in an optimum way. It is detrimental to the development of social productivity. Thus, we conducted an unflagging search, and strove to find a way and move ahead through reform and opening to the outside world.

In the course of reform during the past several years, with the change in the overall pattern of China's national economy toward a combination of planning and market regulation, a series of corresponding changes also occurred in the finance and banking operating mechanism. This resulted in the preliminary building of a finance and banking system having a diversified structure and a cooperative division of labor in which the central bank plays the leading role and national banks are the main player. It also resulted in the nurture and development of financial markets that spurred diversification of the finance and banking mechanism and the finance and banking business. In macroregulation and control of finance and banking, we have also consistently sought to combine plan and market, to combine direct regulation and control with indirect regulation and control, and to combine administrative methods with economic methods. In this, we have also been definitely successful.

As the next step, we must explore further reform and perfection of the finance and banking macroregulation and control system as well as the financial operating mechanism in a socialist market economy system. The key ingredient in this effort is the turnover and allocation of credit funds. We must abide by the principle of the laws of value, and we must invest in high quality and good return sectors and industries. Banks and other financial institutions must face market risks and change their operating mechanisms. Monetary policy tools must include a greater market operation component, and use of the market mechanism to maintain currency stability and overall balance between supply and demand must be phased in.

Use of the market mechanism to effect optimum allocation of credit funds cannot be accomplished in a single stroke. A series of policy measures will be required, and painstaking preparations and daunting efforts made to set the stage for gradual change to bring about this major turnaround in a planned, step-by-step way. This process of change will include at least the following several things:

First is the need to make clear that the finance and banking system is a special enterprise and economic organization for dealings in currency and credit. The goal of finance and banking reform is establishment of a macroeconomic regulation and control system in which indirect regulation and control predominates that provides a sufficient amount of currency to meet market operating needs. It is a finance and banking system that allocates resources as the laws of value demand and according to economic returns. Its ultimate goal is to spur the national economy to achieve high return growth while maintaining currency stability.

Second is the need to reform and readjust the correlation between monetary policy and fiscal policy, actively creating conditions for separating credit that is provided for policy reasons from commercial credit. This serves as a beginning for founding banks for policy purposes that undertake to provide credit for policy purposes, and changing the operating mechanism of the specialized national banks in a planned, step-by-step way so that they gradually become commercial banks.

Third, while transforming the operating mechanism of state-owned enterprises, propelling business enterprises toward the market, increasing their vitality, and improving their quality, it is necessary to demolish the organization system in which funds come from and are supplied out of a large common pot. Banks must ensure autonomy of operation in their professional activities, not permitting pressure or meddling from administrative organs. A major effort must be made to toughen the credit-restraint mechanism to ensure that credit funds operate according to the law that says "funds loaned must be repaid, principle is to be repaid when due, interest is to be collected, and funds are to turn over for use."

Fourth is further reform of the price system to remove the distortions in market prices. The relationship between the market price system and the bank interest rate system must be gradually straightened out so that prices of commodities truly reflect supply and demand for them, and so that interest rates genuinely reflect supply and demand for funds, gradually making interest rates respond to the market.

Fifth is further support for and development of financial markets, using the existing local borrowing and lending markets within trades as a foundation for the gradual fashioning of a nationwide unified capital lending market. While developing bond markets and foreign exchange markets, more share market pilot projects should continue to be run.

Sixth is more finance and banking legislation to establish a legal basis for finance and banking to operate in accordance with the market mechanism, thereby truly providing legal support for and the handling of matters according to law.

The aforestated basic conditions for the operation of a market economy require deliberation and a process of

nurture and development. Some of them relate to reform of the economic system and the operating mechanism, while others relate to the building of the country's legal system. This will require good coordination of policies among planning, government financial, credit, and pricing departments concerned. However, I feel that really meeting the macroeconomic needs of a market economy will require, first of all, an effort to solve problems of everyone getting credit funds from a large common pot, and operation of a supply system. This is the key to whether the market mechanism will be able to allocate resources in the future.

2. The First Requirement in Operating a Market Economy Is Destruction of the Mechanism Whereby Everyone Obtains Credit Out of a Large Common Pot

During the current stage of financial reform in China, the mechanism whereby the government serves as a "large common pot for the supply of funds" has been demolished to be replaced to a very large extent by a "large common pot of credit." This state of affairs occasions substantial difficulties for the next step in converting the finance and banking operating mechanism into a market economy mechanism.

According to Marxist credit capital theory, the standard for the operation of the credit capital market may be summarized simply in four sentences, namely "funds borrowed must be repaid; principle is to be repaid when due, interest is to be collected, and funds are to turn over for use." If these four credit fund conditions are met, the result will be a benign cycle in which capital increases in value as it turns over. Marx's credit capital theory was devised against a background of a capitalist market economy, but it also meets the socialist market conditions prevailing in China today. Nevertheless, it is these very four conditions that have not been met in the 40 years of banking in China, and these problems were not truly solved during the previous stage of reform.

First is the existence of "three great conflicts." These are: central government deficits are made up by overdrafts on the central bank; local government red ink and shortfalls in the payment of subsidies are charged off to business enterprise losses, which puts the squeeze on bank credit. For example, funds that grain businesses are to provide are made up out of bank credit, running up a bill nationwide of tens of billions of yuan; and the losses of state-owned enterprises are added to potential losses, and are also padded out by the diversion of bank credit. The amount of credit that these three conflicts tie up is substantial, and it does not turn over. As a result credit funds lose the purpose for which they are intended. This seriously obstructs the next step in the transformation of the bank operating mechanism, and it also impedes the transition of China's finance and banking system to a form suited to a market economy.

Second is "one much, three greater and three highs." By "one much" is meant much credit capital tied up. During the Seventh Five-Year Plan, credit increased at

approximately 20 percent per year, a percentage far in excess of economic growth. Not only was much credit tied up, but it turned over slowly. Today the average amount of time required nationally for credit funds to turn over once is more than 200 days. The all-time best rate of turnover was slightly more than 100 days. This also means a decline in returns from the use of credit. The amount of industrial output value per yuan of industrial credit in China was 1.65 yuan in 1985, 1.56 yuan in 1991, and 1.02 yuan for the first 9 months of 1992. Obviously this is not consistent with market economy principles, and one important reason it is not is the "large common pot capital" mechanism that permits a fairly large amount of capital to be invested in places that produce no return. The "three greater" are: greater lengthening of the period of short-term credit, greater immobilization of long-term credit, and greater amounts of credit capital coming from the government. As of the end of 1992, China used 140 billion yuan of credit for capital construction, only 2 billion of which was recovered in the same year. At this rate, 70 years will be required for the funds to turnover just once. In addition, a large amount of working capital is invested in fixed assets where it is tied up for a long time and turns over very sluggishly. The "three highs" are three things that keep going up but never come down: the constant rise in the amount of capital tied up in finished industrial goods, the constant rise in the percentage of overdue credit, and the constant rise in the amount of credit tied up in loss write-offs. Statistics on 40,000 industrial concerns under ownership of the whole people that are customers of the Industrial and Commercial Bank show a 38.6 billion yuan balance outstanding of these three kinds of credit as of the end of August 1992, up 54.4 billion yuan from the beginning of the year. Of this amount, credit tied up in finished goods was 23.9 billion yuan greater than at the beginning of the year.

The above situation shows that operation of China's economy relies to a very great extent on the investment of credit funds and that the return from these funds is a crucially important factor. In future economic development, in particular, a severe shortage of funds in China will last for a fairly long time. When a shortage of funds exists, finance and banking institutions will have to learn how to use the market mechanism to improve the return on funds in order to meet the needs of the market economy.

3. Change of the Bank Operating Mechanism in the Gradual Building of a Finance and Banking System in Which State Commercial Banks Are the Principal Players

The key in building a socialist market economy system lies in changing the operating mechanism of state-owned enterprises, particularly of large and medium size state owned enterprises, moving enterprises toward the market, increasing their vitality, and improving their quality. Not long ago, the State Council promulgated *Regulations on Changing the Operating Mechanism of Industrial Enterprises Under Ownership of the Whole People*. Reportedly, the authorities concerned are now

drafting attendant laws and regulations. The position of China's business enterprises as independent commodity producers is gradually being established, and a mechanism whereby enterprises independently bear market risks is in process of being perfected. However, credit has yet to become a solid factor in restraining enterprises. Economic development in China today rests on credit to a very great degree. Unless the bank operating mechanism is changed, credit coming to restrain enterprises more, market risks are bound to be transferred from enterprises to the banks. For example, enterprise slow product sales, investment mistakes, and deficits leading to losses can all result in credit not being repaid on time resulting in arrears or bad debts. In the future development of the market economy, some enterprises will be unable to change their operating style in a short period of time, or they may even be eliminated. If this is not handled well, the proportion of banks' risk assets may rise greatly. All banks must rapidly adopt effective countermeasures to control credit beginning right now.

A bank's operating mechanism is actually the process whereby its assets are used. It has as its goal ensuring safety, liquidity, and profitability in the use of bank assets, doing all possible to reduce credit risks. Concretely stated, the change in China's bank operating mechanism means attainment of "six oneselfs," namely making decisions oneself, being responsible for profits and losses oneself, bearing risks oneself, striving for financial balance oneself, restraining oneself, and seeking development oneself. Only in this way is it possible to attain Comrade Xiaoping's request to "operate banks like banks."

So how can the banks operating mechanism be changed? Given China's present realities, a beginning in the following ways might be considered: First is active creation of conditions for the separation of financial institutions that serve policy purposes from commercial financial institutions, changing the operating mechanism of the specialized national banks in a planned step-by-step way so they gradually become commercial banks that make decisions for themselves, are responsible for their own profits and losses, seek financial balance themselves, develop themselves, bear risks themselves, and limit themselves. At the same time, an effort should be made to establish banks that serve policy purposes, these banks bearing responsibility for issuing credit for policy reasons.

Second, certain specialized banks in areas in which the market economy is better developed should be chosen for a change in their operating mechanism to turn them into commercial banks. During the past several years Shenzhen has begun to take steps in this direction. Assets and liabilities proportional management and risk management might be tried out in the grassroots level branches of these specialized banks, as well as a bank manager responsibility system, with managers having authority to develop new business, authority to allocate

credit resources, authority to allow interest rate fluctuations, authority to apportion retained profits, and authority to notify and penalize staff members and workers to do a good job of administration and management under the principle of concurrent concern about ensuring assets profitability, liquidity, and safety. Only by changing the operating mechanism in the grassroots level branches of the nation's specialized banks can the microeconomic base be solidified for further intensification of financial reform.

Third is the suiting of general circumstances to specific situations for the founding of a number of commercial banks having a regional stock-share cooperation system. Consideration might be given to the use of existing urban credit cooperatives as a foundation for founding urban cooperative banks.

Fourth is support for and effort to develop financial markets having sound rules and regulations, that are rationally distributed geographically, are open, and nationally uniform. Nationwide short term lending markets should be actively supported and built; bond markets and foreign exchange markets should be developed, and stock market pilot projects should continue to be run at the same time. Financial institutions that meet the diverse financial needs of a socialist market economy system should be further developed.

The basic pattern of the country's financial system in the future will be: a financial system in which the central bank holds the leading position, state commercial banks are principal players, and all financial institutions divide labor cooperatively, with the gradual founding of modern financial management and administrative systems in the fashioning of an open and nationally unified financial market.

4. Further Reform and Perfection of the Central Bank Regulation and Control Mechanism in the Building of a Macroeconomic Regulation and Control System in Which Indirect Regulation and Control Predominates

The main function of the central bank is to ensure currency stability. Since operation of a market economy requires a macroenvironment for currency stability first, as long as central bank retains authority to issue currency and authority to regulate and control the total amount of credit, currency policy vehicles that exert indirect regulation and control should be used more in the future. The central bank's emphasis should gradually change, most of its energies going to greater investigation, study, and analysis, monitoring, and forecasting of changes in the operation of currency and credit, financial regulation and control being left more to the play of the market mechanism. A beginning in the following regards can be made now:

First is an examination of the central bank's open market business. A beginning can be made with the buying and selling of short-term finance capital bonds as a means of regulating the basic money supply and flexibly reappportioning funds among surplus and shortage areas and

banks. Finance capital bonds may be issued at floating interest rates, thus enabling them to influence as well interest rates in the country's borrowing and lending markets. After experience has been gained, a transition can be made to open market transactions in which treasury bonds are the vehicle used.

Second is further development of borrowing and lending markets within the same trade. The existing financial market funds network that cuts across jurisdictional lands can serve as a basis for forming borrowing and lending centers nationwide. This will permit a balancing out of fund surpluses and shortages through the market mechanism for greater economic returns.

Third is impetus to the development of negotiable instrument acceptance and discounting markets. Negotiable instruments must be used to a greater extent as a final settlement instrument, and the kinds and scale of use of various payment vehicles such as commercial bills, checks, and credit cards must be expanded. The flexibility, liquidity, and safety of bills must be increased within the limits of laws and regulations regarding such bills.

Fourth is the need for better financial law regulation and control methods. In order to meet new changes resulting from reform and opening to the outside world, meet the requirements of the socialist market economy system, and to keep up with the constant expansion of the scale of financial services and constant creation of new financial instruments, greater use will have to be made of legal methods in China's macroeconomic financial regulation and control. For this reason, financial laws and regulations, including a *Banking Code*, a *Commercial Paper Code*, a *Negotiable Securities Code*, and an *Insurance Code* should be inaugurated with all possible speed.

Ideas To Free Up Working Capital

93CE0164B Beijing JINRONG SHIBAO in Chinese
23 Nov 92 p 3

[Article by Tu Jianyun (3205 0494 0062) and Qi Tao (4847 3447): "Remedies to Reduce the Amount of Working Capital Tied Up in Industrial Enterprises"]

[Text] The tie up of a large amount of capital, slow turnover of capital, and poor returns from capital is a longstanding problem in China's industrial production that has yet to be solved. The writers believe that today when economic returns are not good, the national treasury is strapped for money, and banks are seriously short of funds, an increase in effective investment in technological transformation to advance technological progress in enterprises is an important way to put working capital to work and ultimately bring about a benign cycle in funding.

1. Present level of technical equipment in China's industrial enterprises.

Technical equipment is the material foundation for enterprises' production and operation. Antiquated equipment and backward technology are longstanding problems in China's enterprises, and despite a certain amount of technological transformation, equipment and technology remain seriously out of date.

a) Enterprises' equipment is antiquated and backward; it is urgently in need of replacement. One-third of existing technical equipment today is from the era of the 1950's and 1960's, and nearly one-half was made during the 1970's. Less than 13 percent of the equipment in key enterprises nationwide meets or approximates international standards; more than 60 percent of equipment meets the general domestic standard or is out of date. Key enterprises are the backbone of the national economy, and when the technical equipment in these backbone enterprises is antiquated and backward, the country's national economy operates at low efficiency.

b) Enterprises' equipment has been in service too long; it creaks along.

c) Equipment automation is low; it wastes time and materials. A World Bank survey shows only 2.6 percent of enterprises' equipment is automated, 24.85 percent is mechanized, 33.7 percent is semi-mechanized, and 28.55 is hand-operated.

2. The backwardness of technical equipment is an important reason for the inflated use of industrial working capital.

The backwardness of enterprises' technical equipment not only seriously impairs the development of production, but it also has an extremely negative effect on the turnover of working capital.

a) The products this equipment produces are of poor quality and low standards. State Technology Supervision Administration random sampling shows an acceptable level of approximately 75 percent for most products, one-fourth being unacceptable. Nearly half of all the industrial products in inventory today cannot be sold because of poor product quality.

b) High waste of materials and energy in the production process. The low operating efficiency of technical equipment means that enterprises' production is of the input but non-technical resources consumption type. [tourru er fei jishude ziyuan xiaohaoxing 2121 0354 5079 7236 2111 2611 4104 6327 3293 3194 5088 0992] This results not only in the creation of a false speed of development, but covers up an irrational situation of much input, little output, and great waste.

c) Poor ability to respond to the market. Because of the outdated technical equipment, enterprises products have been stereotyped for decades. When product sales decline sharply causing serious accumulation of products in inventory, business enterprises usually rely on banks

to release more working capital credit in order to resume the making of low standard products and keep the enterprise alive.

3. Acceleration of technological transformation to eliminate inflation in the amount of industrial working capital that is tied up.

The foregoing analysis shows the result of outdated equipment is the accumulation of products in inventory and a waste of resources that leads to a movement of working capital that is contrary to output and efficiency. These fundamental problems are, generally speaking, problems of technological progress. Earliest possible elimination of the inflated tie-up of working capital requires that the acceleration of enterprise technological transformation be made an overall strategic goal. Bank credit departments cannot shirk responsibility in shifting their focus to this strategic goal. As to how to realize this strategic goal, the writers believe that the key lies in solution to the following several problems:

a) Readjustment of percentages to increase technology input. One of the reasons the China is so far behind in updating its fixed assets today is it has not controlled the payback of fixed assets at a certain percentage of accumulations. The amount it has used each year to offset assets to be retired is too little, and the amount used for accumulations is too much. In order to change this situation, henceforth when the state plans the scale of investment in fixed assets each year, it should give first place to technological transformation. While maintaining overall balance, it should increase investment in technological transformation as a percentage of total investment in fixed assets, and reduce the scale of investment in capital construction.

b) The emphasis in technological transformation should be on the technological transformation of old enterprises. In the course of technological transformation now and for some time to come, some locales and enterprises may build new plants or expand old ones in the name of technological transformation oblivious to the integrated nature of the technological progress of old enterprises and overall production capabilities. A strict demarcation line must be drawn between capital construction and technological transformation. Expansions, new construction and non-productive projects must be controlled to ensure that technological transformation funds are really used to improve the production technology, replace equipment, reduce energy consumption, develop new products, and improve competitiveness of old enterprises.

c) Increase in depreciation rates and decrease in the depreciation period for machinery and equipment. The aggregate depreciation rate for fixed assets in China today is approximately 7.2 percent. The fixed asset turnover time is approximately 15 years. Today when science and technology is changing with each passing day, this cycle is too long; it is detrimental to the accumulation of funds for technological transformation.

It is recommended that the fixed assets aggregate depreciation rate is raised to 12.5 percent so that the turnover time for fixed assets can be reduced to eight years.

Discrepancies in Deficit Reporting

93CE0063A Hong Kong CHENG-MING [CONTENDING]
in Chinese No 10, 1 Oct 92 p 23

[Article by Ceng Qi (2582 3825): "Thirty Billion Deficits—the Financial Deficits of Mainland China in 1991 Has Several Versions According to Official Announcements and Reports"]

[Text] How much exactly is the financial deficits of mainland China for 1991? This appears to be a difficult figure to estimate because there are several versions alone in official announcements.

Four Different Versions of Financial Deficit Data

The first version: A spokesman of the State Council said during the session of the "National People's Congress": "Financial deficits for the whole year of 1991 are some 15 billion, of which, over 10 billion are caused by large-scale natural disasters. They are incurred by the government distributing relief goods and extending aids to inflicted areas."

The second version: Wang Bingqian [3769 0014 0051], former finance minister, said in mid-April: "Last year's financial deficits are close to 20 billion. After deducting the damages caused by the floods which were unseen in the last 100 years, actual deficits are only 8 billion, which is acceptable."

The third version: Li Guixian [2621 6311 7639], member of the State Council and President of the People's Bank of China, said in Early July and August 1992: "Last year's deficits have exceeded 20 billion."

The fourth version: Not long ago during a local inspection, Zou Jiahua [6760 1367 5478], vice premier of the State Council, said: "The financial deficits of 1991 have reached 22 billion. In addition to large-scale and prolonged natural disasters which caused the government to issue relief goods and funds, administrative expenses exceeded the budget for nearly 80 percent."

Following the USSR's Financial Calculation Method

How much is exactly the financial deficit of China? There is no accurate data base. This is almost unimaginable to those governments which have a strict administrative system and normal operations. The Economic Research Institute of the State Council revealed that the financial system of mainland China includes regular and irregular expenses and budgetary and extra-budgetary expenses. It allows overspending. The percentage of overspending can be changed any time, and it may fluctuate up or down between 20 to 30 percent. This kind of calculation method and arrangement of financial revenue and expenditure is copied directly from the former Soviet Union.

According to a brief report issued by the Office of the State Council on 27 August, the financial deficits of 1991 are 29.13 billion, of which, administrative overspending is 5.893 billion (official announcement is 3 billion, covering up irregular administrative overspending).

The brief report states that the financial deficits of the first half of 1992 have reached 8.35 billion and administrative overspending is some 1.7 billion.

Both Central and Local Administrative Organizations Are Seriously Overstaffed

The brief report also points out that by the end of June 1992, the Central Committee of the Communist Party of China exceeded its authorized size by 11 departments, commissions, and offices, including nonpermanent organizations. The State Council exceeded its authorized size by 18 departments, commissions, and offices, including non-permanent organizations.

Provinces, autonomous regions, and municipalities are equipped with 2,175 permanent organizations at the level of department and bureau and 730 nonpermanent and temporary organizations, exceeding the original plan by 536 units.

Permanent party and government organizations at and above the county level are overstuffed by 16,200 units and 316,000 people.

The brief report states that the permanent administrative organs of large- and medium-sized enterprises across the country are overstuffed by 40-160 percent in units and by 65-250 percent in personnel.

The People Have No Way of Supervising or Controlling Financial Chaos

The information in the brief report of the State Council reveals (assuming that its data are correct) that the overstaffing and overspending problems of party and government organizations from central to local levels are serious and that they are the main cause of financial deficits. The above several versions of financial data show that of mainland China's near 30 billion financial deficits in 1991, at most 12 billion were used for disaster relief. How do they account for the remaining over a half of the financial deficits? It appears that they have not carried out any effective investigation and review of this problem regarding its legality and rationality. Even if they have had some kind of investigation, they probably ended up with nothing definite. There is absolutely no way for the people to supervise and control such matters—a great irony to Mainland China which claims that "the people enjoys democracy under the socialist system."

FOREIGN TRADE, INVESTMENT

Political, Economic Reasons for Joining GATT

93CE0182A Beijing *QIYE GUANLI [ENTERPRISE MANAGEMENT]* in Chinese No 133, Sep 92 pp 40-42, 48

[Article by Wang Xuequn (3769 1331 5028), Department of International Business Management, University of International Business and Economics: "Pros and Cons of China Resuming Its Status as a GATT Signatory"]

[Excerpt] [Passage omitted] II. Why China should resume its status as a GATT signatory.

China's GATT application makes the following points: China is carrying out an economic policy of opening to the outside and improving its domestic economy, and will continue to adhere to this policy; the process of China's economic reforms will be of great help in expanding her economic and trade relations with other signatory nations; China's participation in the work of GATT will help the organization realize its aims. These statements basically explain the reasons why China should enter GATT. Given China's domestic and foreign economic and political status, resumption of GATT membership raises the following points to consider:

First, the political considerations. Participation in GATT will increase greatly China's voice in international affairs, and will have a positive influence on China's unification of its large industrial associations. In 1986 and 1991, respectively, Hong Kong and Macao joined GATT as independent customs territories. But China, though a sovereign state, still cannot participate in the organization, which makes it very passive in political matters. Taiwan applied for GATT membership on 1 January 1990, with the aim of rejoining international society. Therefore, if we are to bring about "one country, two systems," it is of the utmost importance that China rejoin GATT soon.

Second, to suit the needs of reform and opening to the outside. China's reform and opening to the outside will be the unswerving guiding principle for the long term. The reforms in China's economic system require greater opening to the outside. This makes it urgent that we link China's economic development more closely with the world's economy. GATT is a multilateral international economic system, and joining its activities will assist China in expanding its opening to the outside. Last year, China did US\$135.7 billion in foreign import and export business, which was more than 13% of the GNP, and foreign trade is becoming increasingly important to China's economic development. To a certain extent, China's economic development relies on development of world economic trade, and this trade must have a great influence on China's economic development. GATT functions as a multilateral coordinating organization, coordinating international economics and trade, and its regulations are now generally accepted throughout the world. If China is to expand its opening to the outside,

then it must accept the norms which have general international acceptance. Only in this way can we speed up the development of foreign trade. There are currently 103 GATT members, and the trade among them constitutes more than 90% of the world's total volume of foreign trade. GATT's functions and influences are all of the utmost importance, and it is only by placing itself in this international environment that China can attain long term, future development.

Third, China's reform and opening to the outside needs a favorable international environment. In addition to a stable domestic situation, building China's economy, reform and opening to the outside, all demand an international environment that is both stable and favorable. Joining GATT will strengthen trade relationships with the other members. As these economic trade ties become closer, they will increasingly act to safeguard China's economic development. Since foreign and domestic markets are becoming increasingly more closely linked, it carries the advantage that should any nation take punitive measures against China, such measures would have the affect of hurting the nation taking them itself. On the basis of mutual benefit, expansion of our economic trade ties with other members within the sphere of GATT's multilateral system will help to control and avoid unilateral and bilateral reprisals, and aid China in establishing good and fair economic relationships.

Fourth, full participation in international affairs. After China was restored to its seat in the UN, it successively resumed its seats on the IMF and the World Bank. But it has never resumed its GATT membership, and a seat on GATT is becoming more essential. The provisions of GATT specify each nation's rights and responsibilities, and these involve various aspects of each nation's government, economy, trade and system, and play a major role in each nation's economic development. The long term, advantageous, financial and technological aid that China has gained from the IMF and the World Bank has largely been related to trade. We must establish ties to GATT, because not joining the organization will make it very difficult to bring the use of other economic organizations into full play. GATT's multilateral system will enable China to better regulate its economic trade relationships with other members, and make a maximum effort to seek consistent worldwide economic trade policies. China is a developing nation, but it is only by placing itself within the framework of GATT that it can formally establish its legal status as such, so as to derive all of the rights which a developing nation should have. This will serve to maximize the further development of China's world economic trade.

III. The advantages and disadvantages of China resuming its seat on GATT.

Everyone has his own opinion as to what will happen after China resumes its GATT seat. This is especially the case when it involves dissimilar industries and manufacturers, or is directed at specific enterprises or products.

Opinions vary, and it is difficult to reach a final conclusion. But in the broad view, rejoining GATT will have the following benefits:

1. Enjoyment of the GATT stipulations of stable, multi-lateral, most-favored-nation treatment. This will provide equal opportunity for Chinese enterprises to enter foreign markets, and will expand China's export trade.
2. According to the relevant fourth section of GATT provisions, China will enjoy the particularly favorable treatment that is extended to developing nations. This will provide an international environment for China's economic growth which is both long term and stable.
3. In keeping with GATT's principle of nondiscrimination, there will be a steady elimination of various practices which discriminate against China. For example, China's most-favored-nation status should no longer be subject to annual re-examination by the United States. China will also enjoy the treatment which favored nations generally extend to each other, which will place China's exports in an even more advantageous position.
4. Through GATT, China will have a complete understanding of the trade policies of other nations, their laws and regulations relating to trade, trade statistical data, etc. We will have full awareness of international economic trade information and developments, which will assist in such matters as studying and formulating policies and procedures on foreign trade.
5. There will be better resolution of international trade disputes, and unfair treatment will stop. Through GATT's mechanisms and procedures for resolving trade conflicts, the fair resolution of such conflicts will better protect the interests of Chinese enterprises.
6. Open markets will be of benefit in importing technology, developing high-tech products, adjusting the product mix, and will ultimately help strengthen enterprises' competitiveness.
7. Through participation in GATT's various meetings and tariff negotiations, China will have the right to take part in the revision and formulation of GATT provisions. By fully protecting the various functions of GATT, we will at the same time be doing a better job of protecting China's international position and her rights and interests.

In summary, the benefits to China from GATT membership are obvious. The chief disadvantage lies in the opening of our domestic markets. While GATT provisions grant certain rights, they also require fulfillment of certain obligations, chief of which is the progressive elimination of various restrictive measures on imported products. China's internal documents which deal with import management regulations, our licensing system and procedures, etc., must all become public knowledge, so that the rest of the world can fully understand them. Taking customs as the principal method, these must be lowered to a level which is still adequate for protection of

domestic companies. In this situation, because most of China's enterprise and labor force still operate at a low level of efficiency, our products will continue to be in a weak competitive position. In an open-market situation, these enterprises will be under fierce assault from overseas products. In addition, in a situation where consumers continue to favor imported products, some enterprises or businesses could be eliminated through import competition. These matters all demand our serious consideration, and adoption of appropriate countermeasures as soon as possible. However, while GATT stipulates rights and responsibilities, it also specifies corresponding protective measures. This is precisely the aspect that we must study seriously, fully and systematically, in order to safeguard the beneficial aspects of belonging to GATT, and give suitable protection to China's domestic markets.

Impact of GATT Assessment on Domestic Industry

*93CE0180A Beijing GUOJI MAOYI [INTERTRADE]
in Chinese No 130, 27 Oct 92 pp 11-13*

[Article by Li Gang (2621 6921), International Trade Institute, Ministry of Foreign Economic Relations and Trade: "Accession to GATT Presents Opportunities and Challenges"]

[Text] After China resumes its membership in the General Agreement on Tariffs and Trade [GATT], what interests the country most is the rights it is entitled to in the markets of other signatory states. For their part, the latter are more concerned about the obligations China should fulfill, namely its commitment to open up its domestic market. It is a question of striking a balance between rights and obligations. Opportunities and challenges manifest themselves as the impact of impacts and exports on the various domestic industries.

1. Impact on National Economy Overall

First, we must put the Chinese economy in the midst of ongoing global economic integration and give it a scientific and rational orientation. After a dozen years of reform, the Chinese economy is no longer the centrally planned economy as traditionally understood. Instead, the Chinese economy is a socialist market economy. Its market system is in the process of maturing. What is needed is a period of adaptation and adjustment.

With a per capita GNP of just \$350, China today belongs in the ranks of low-income developing nations. In China the pressures of industrialization are enormous. Of its total population of 1.1 billion, 900 million live in the countryside. It boasts abundant manpower resources but is acutely short of funds and technology, the prerequisites of modernization. The primary and secondary industries account for an excessively large chunk of the national economy while the tertiary industry makes up a very small part, which is quite different from the pattern of distribution in the world economy. The overall quality of China's economy is not high, which has put it at a

disadvantage in international specialization for years and made it hard for it to participate in full-fledged international competition.

This dual quality of China's economic standing makes it imperative that we carefully examine the string of consequences that may flow from China's accession to GATT instead of rushing to judgment.

1) Impact on the national economy. The national economy already in existence is that of a huge nation. It relies mainly on the domestic market and is driven by domestic demand. Most trade, industries, and sectors within the national economy allocate resources as guided by domestic demand (or mutual demand) and rarely consider international competition as a factor. With the domestic market isolated from the international market for so long, Chinese industry has been insulated from the pressures of international competition. As a result, even industries that are quite mature at home appear backward compared to the rest of the world. Regardless of whether they are industries in need of modernization and transformation or burgeoning industries, they are in different stages of the maturing process. Truly competitive industries are few and far between. Now that entry to the Chinese market is to be liberalized, it is hard to say which domestic industries do not need protection. The only factor needing determination is how much protection. All industries stand to be affected to some extent, which may weaken somewhat the ties within the entire industrial system. This, in turn, will affect the way in which industry is to be upgraded and hence the makeup of the entire national economy.

Rejoining GATT affords a golden opportunity for the reorganization and restructuring of the national economy. The modernization, transformation, and upgrading of all industries is an arduous process. These industries will come under enormous competitive pressures from their counterparts in the world, including those in developing nations as well as the newly industrialized countries [NIC]. For the moment it is hard to measure and quantify accurately the impact of competition, but what is certain is that the challenge is bigger than the opportunity. Accordingly we must tackle it in all earnestness.

2) Impact on the overall balance of the national economy. The price we pay for readmission to GATT is a drastic cut in the overall tariff level, the opening of the domestic market, and an increase in the volume and scale of imports. This will affect in a major way the balance between aggregate supply and aggregate demand at home. At the aggregate supply end, the increase in imports would increase that part of aggregate supply consisting of effective supply, which will force a reduction in ineffective supply. The part of ineffective supply that is forced out will then have to seek other outlets. Because of competition, part of the existing domestic effective supply will be forced to give way to effective supply consisting of imports and becomes ineffective

supply in the process. This will exert the utmost pressures on the domestic industry. At the aggregate demand end, there is still no effective economic restraint on aggregate social demand. When tariffs are cut drastically and importing is liberalized, the result could well be a rush to import. At the same time, domestic industry will also experience an increased demand for imports. As producers, enterprises would naturally wish to see a high tariff barrier to keep out imports and corner the domestic market permanently. As consumers of a productive nature, they also want to reequip themselves with imported machinery and assembly lines to make their products more competitive. Given the two situations, imported commodities will account for a substantial share of the increase in aggregate demand. As a result, imports may increase faster than exports, leading to a trade deficit and, ultimately, a deteriorating balance of international payments.

Thus the overall balance of the national economy must be achieved through Chinese participation in the international division of labor and exchange on a large scale. At a time when direct planning is being downgraded as a tool, balance should be effected by stepping up macroeconomic forecasting. The role of imports should be evaluated positively. The level of public welfare should be raised through genuine participation in international trade. At the same time, apply the right pressure on the domestic industry to upgrade itself and introduce a new generation of products to adapt to international competition. The increase in imports will necessarily generate a demand for foreign exchange to pay for them. This will force export-oriented industries to enhance their ability to export and earn foreign exchange, in the process balancing imports with exports as well as the international payments.

3) Impact on national economic operations. Turning to the impact of the multilateral trading system on the operating mechanism of the national economy, price fluctuations on the international market will be directly passed onto the domestic market, the impact magnified by the steep cuts in tariffs. A string of parameters (prices, exchange rates, and tariffs) will bring the international market and domestic market increasingly closer, integrating them even further. Trading and participating in the world economy on a larger scale will enable China to overcome the limitations of a longstanding inward-looking development strategy as it seeks its own place in the international economy. An expansion in imports may possibly replace similar products turned out by inefficient domestic enterprises so that what limited resources we have can then be steered toward efficient enterprises. By internationalizing its economy, China can enjoy the comparative advantage of international division of labor and exchange and the terms of joint development, which will spur the transformation and upgrading of the industrial structure at home and thus enable China to compete with the rest of the world from a stronger position. On the other hand, China has been opened up to the outside world considerably, making the

Chinese economy all the more susceptible to ups and downs in the world economy, to changes in the international trading environment, and to any sudden shift in the world situation. In 1991, exports already accounted for 20.1 percent of the GNP and imports 17.84 percent, or 37.94 percent in all. We should have a clear understanding of this.

2. Impact on Domestic Economy

The resumption of China's membership in GATT represents an enormous opportunity and challenge to Chinese industry. It will also deal a heavy blow to it. Needless to say, the impact will differ in timing and scope from sector to sector and from industry to industry.

1) It will provide new opportunities for the export of Chinese industrial products and more room for development. We can expect the export of Chinese industrial manufactured goods to experience further growth within the GATT framework on the basis of equality and mutual benefit. At present China can only try to develop its economic and trade relations with other nations on terms harsher than would be the case if China were a member, which has damaged our export trade in some ways. Taking aim at the rapid expansion of Chinese exports of manufactured goods, some developed nations have imposed restrictions on their entry with anti-dumping measures. Within the GATT framework, China's legitimate rights and interests will be effectively protected and the unilateral and unjustifiable discriminatory conduct of these developed nations in trade matters can be resisted. As a developing nation, we can put to best use the preferential treatment accorded developing nations under GATT. Admission to GATT also sets the stage for our enjoyment of the generalized system of preference [GSP] on a broader scale. Moreover, GATT has a whole set of mechanisms for consultation, arbitration and dispute resolution. This puts the resolution of trade conflicts that may occur in bilateral relations under the protection of international law. As a member of GATT, China may bargain from a position of strength in international negotiations, making it easier for us to safeguard the legitimate rights and interests of Chinese industry.

2) Within this multilateral international trading system, Chinese imports, particularly technological imports, will increase substantially. The principle of nondiscrimination may help us overcome the restrictions or ban imposed by developed nations on technological transfer so that we can import even more advanced technology, equipment, funds, intelligence, and managerial experience from overseas. This, in turn, will help speed up the technological modernization and transformation of Chinese industry, adjust the technological structure, and make the industrial structure more upscale.

3) Admission to GATT will pose a powerful challenge to the sectoral management system, which has hampered industrial development in China. First of all, we must

thoroughly reform the entire planning system, including the sectoral planning system. Both industrial planning and the execution of such planning must rise above narrow sectoral interests. Consider too the linkages between the domestic market and international market. Orient ourselves toward the adjustment and development of the global industrial structure. Use economic levers to allocate resources rationally in order to avoid waste. Reform the procedures, methods, and means of control of planning work in order to comply with the needs of the socialist market economy. Second, at a time when we must be oriented toward industry management and use economic and legal tools to carry out macroeconomic management, we must genuinely separate government administration from enterprise management to turn enterprises into true commodity producers and operators that can survive and grow in the market. Furthermore, readmission to GATT will hasten the dismantling of all forms and shapes of barriers between sectors, regions, and industries, and remove the impediments to fair market competition so that a uniform national industrial policy and fair trade policy can be carried out effectively.

4) Restrained by our rights and obligations under GATT, our entire industry will become more vulnerable to international competition, the pressures of which may lead to a flood of imports. We must be fully prepared for such a development psychologically and practically. Inevitably some enterprises will go bankrupt, which will facilitate resource optimization and enable the surviving enterprises to compete with redoubled energy.

Industries and enterprises that fit in with the national industrial policy and have managed to be fairly competitive on a closed market will face strong competition from foreign products in price, quality, and after-sale service. This is particularly true for electrical machinery products. Such competition may push profitable but highly-protected enterprises into law-profit or even no-profit territory.

Such competition may also deal an even heavier blow to China's nascent high-tech industries. Right now most of these industries are in their infancy or early developmental phase and have yet to achieve batch production or to reap the benefits of economies of scale, so they cannot compete with foreign products. By and large there is a wider gap between China's high-tech industries and similar industries overseas than that between our ordinary industries and their international counterparts. Since China's new and high-tech industries are still in their infancy or formative stage, it would be very difficult for them to compete fairly with the products of developed nations, or even those of the NIC—in the level of technology, level of equipment, product quality, price, and services—without the protection of tariffs and other non-tariff means. For this reason, the possibility that they may suffer a heavy blow from such competition is something we cannot overlook.

POPULATION

Impact of Rural Population Flow, Control

93CE0139A Beijing RENKOU YANJIU [POPULATION RESEARCH] in Chinese No 5, 29 Sep 92 pp 33-35

[Article by Yang Jinxing (2799 6855 2502): "The Impact of China's Population Flow Between Urban and Rural Areas On Population Control"]

[Text] China's steady deepening of reform and opening up is bringing about an increasingly larger and broader population flow between urban and rural areas. This population flow is having a sharp impact on China's population control, with current opinions varying as to whether it is advantageous or detrimental. We believe that the population flow between urban and rural areas has a generally advantageous impact on population control, so that the current widespread view that the floating population is detrimental to population control is actually a misunderstanding. Thus we think that the population flow between urban and rural areas should be encouraged as far as population control is concerned. Meanwhile, we could take active steps to bring about a population flow between urban and rural areas that is even more advantageous to population control.

This article's key data sources are 1988 floating population surveys of eight cities, such as Shanghai (since these surveys generally all involved a given volume of sampling and were conducted by a joint organization of forces by concerned government departments and research units, they are very reliable), and a 1988 sampling of national birth control data.

I. The Current Impact of the Population Flow Between Urban and Rural Areas on Population Control

China's current population flow between urban and rural areas is two-way, with a simultaneous movement of the rural population to cities and the urban population to the countryside; the movement of the rural population to cities is larger in size. Based on place and change in nature of registered permanent residence, the flow of rural population to cities can be broken down into the following categories:

A. Transfers of registered permanent residence from rural to urban through channels such as college admission or military enlistment, and transfers from agricultural to non-agricultural status through the establishment of new cities and towns or the expansion of existing cities. In China, the rural population that is transformed into an urban population through these channels officially becomes an urban population that enjoys equal treatment with the original urban population in all areas. This newly transformed urban population does not differ much per se from the original urban population as far as the understanding and enforcement of population control policy is concerned. Data from the "Population Migration Survey of 74 Chinese Towns" conducted by the Chinese Academy of Social Sciences' Population

Science Institute show that the average number of children born to women in all age groups above 30 in cities and towns is 2.9762 for migrants, or slightly lower than the 3.1962 for nonmigrants. In addition, as the newly transformed urban population comes from and is rooted in the rural areas, their changed childbearing concepts and economic conditions have a positive impact on their relatives who are still in rural areas. Thus this type of population flow between urban and rural areas is obviously very advantageous to overall population control;

B. Settlement in cities by populations that provide their own grain rations. The *Circular on Peasant Settlement in Towns* issued by the State Council in 1984 allows peasants who provide their own grain rations to settle in towns as laborers, merchants, or service workers. This population topped 5 million throughout China by the end of 1988. These people usually have a certain amount of technical skills and so earn much higher incomes after they settle in cities. While their impact on population control is not as good as that of the official urban population, it is much more advantageous than that of the majority of the rural population. With regard to family planning, since they are more easily controlled than the rural population, this type of population flow between urban and rural areas has more pros than cons;

C. Rural population flow to cities. This is the most dynamic and mercurial type of population flow between urban and rural areas. Since the mid-1980s China's cities, particularly economically developed large and medium-size cities, have experienced a sharp increase in their floating populations. While this slowed for a short time, the urban floating population is now at a steady high, and the length of stay is increasingly long. Surveys by concerned departments show that about 60 percent of our urban floating population comes from rural areas.

While the floating population is generally considered to have a largely negative impact on family planning work, we believe that this is a misunderstanding that needs to be cleared up. Surveys show that the current floating population in cities can be roughly divided into five categories: official business, cultural, social, transfer, and employment. Only part of these have a direct impact on family planning.

The official business floating population refers to populations that go to cities to investigate, study, research, and participate in work, academic conferences, and related services, as well as all types of on-loan and acting workers, scientists, and technicians. The cultural floating population refers to performers who go to cities on performance tours, students attending school, cadres in short-term training, and tourists and sightseers. The transfer floating population refers to people en route to somewhere else who are changing trains in cities. These three floating populations generally do not have a direct impact on population control.

The social floating population refers to populations that go to cities to visit friends and relatives, seek medical treatment, nurse the sick, care for others' children, and study on a temporary basis, as well as certain drifters without legitimate occupations or destinations, such as unemployed vagrants, family planning evaders, beggars, and criminals on the run. While most in this category do not have a direct impact on population control, the family planning evaders, i.e., the "guerrillas with above-quota children," certainly pose a great population control problem. One could say that much of the floating population's bad reputation with regard to population control is caused by them. We believe that their existence should not cause a negative family planning attitude toward the floating population, because these "guerrillas with above-quota children" make up a very small percentage of the floating population (surveys show that drifters make up only about 0.5 percent of the whole floating population, with "guerrillas with above-quota children" accounting for even less). On the other hand, as these "guerrillas" are caused by poor family planning control in certain places, we cannot blame the whole problem on the floating population.

The employment floating population refers to those who go to cities for jobs, which is the biggest part of the floating population. Statistics show that 66 percent of the floating population in Beijing in 1988 were laborers or merchants. The women of childbearing age in this type of floating population have the most direct impact on population control. We believe that this category of floating population (as well as all of the other categories of floating population except for the "guerrillas with above-quota children") has more pros than cons as far as their impact on China's overall population control is concerned. The current widespread view that the floating population has a mostly negative impact on family planning is a conclusion derived from comparing them to the permanent populations in the cities where they are located. Thus, comparing them to the permanent populations in the rural areas that are their major place of origin would lead to exactly the opposite conclusion, as follows:

First, this floating population grows mainly out of the role of the comparative benefit principle; their major objective in moving to cities is to gain greater economic benefits, and certainly not so that they can have more children. A survey of four Hubei counties and cities—such as Xiaogan and Qianjiang—by Wu Huailian [0702 2037 6647] and others found that over 70 percent of peasants who leave the land do so because of the stronger economic allure of cities and nonagricultural industries. In addition, as these peasants go to live in a new environment, they have a much greater chance of being affected by new ideas, so that their ideas on childbearing are bound to be subtly influenced. Thus in the long run this floating population is favorable to developing the rural economy and improving peasant living standards, as well as being advantageous to population control.

Second, the floating population has a very high sex ratio, with the vast majority being male, and young, strong, and single. Surveys show that males make up over 70 percent of the floating population in cities, that over 60 percent of the floating population that comes from rural areas is between the ages of 18 and 35, and that the percentage for married couples becoming floating population simultaneously and living together is lower. (A 1988 Shanghai survey of 4,744 women of childbearing age in the floating population found that 2,706 were married. Of these, 68.2 percent were part of the floating population living apart from their husbands). This long-term separation of couples in their peak childbearing years should be seen as more beneficial than detrimental to overall population control.

Third, as surveys show that childbearing potential of women of childbearing age in the floating population is not only higher than that of childbearing-age women in the cities in which they live, but also higher than that of those in rural areas from which most of the floating population comes, it is not strange that childbearing-age women in the floating population have a slightly higher birthrate than those in the cities in which they are located. A 1988 Shanghai survey found that women of childbearing age made up 71.4 percent of Shanghai's female floating population, and 88.4 percent of these women were between 15 and 39. However, in 1987 women of childbearing age made up only 56.2 percent of Shanghai's female resident population, and only 82.5 percent of these were between 15 and 39, while women of childbearing age made up 53.1 percent of the rural female population, and 83.4 percent of these were between 15 and 39 years of age.

Fourth, surveys show that, except for a few cities, while the percentage of the floating population not using contraception is higher than the rate among the population in the cities where they are located, where family planning is better, it is lower than in the vast rural areas. For instance, in 1988 24.8 percent of married women of childbearing age living temporarily in residential and collective households in Shanghai did not use birth control. In Beijing the figure was 25.3 percent, in Fuzhou 23.9 percent, and in rural areas 31.03 percent.

Fifth, current surveys show that while the outside-the-plan birthrate and extra-child rate among the floating population in many cities are clearly higher than those of these cities, they are lower than the rural averages. While surveys show that in 1988 the outside-the-plan birthrate among the floating population was only 13.4 percent in Shanghai, and the multiple-birth rate of Beijing's floating population was only 12.6 percent, data from the *China Family Planning Yearbook* for 1988 shows that China's rural outside-the-plan birthrate was 18.7 percent, and a 1988 sampling of Chinese birth control found that the multiple-birth rate among rural females throughout China was 21.4 percent.

Sixth, the major reason for the higher outside-the-plan birthrate among the floating population is poor control.

China's family planning control system and work focus have long been directed mainly at the permanent population (the registered permanent residence population), and it has not kept up promptly with the sudden appearance of a large floating population. This has even resulted in many control loopholes. As the environmental factors affecting population control are clearly better in the cities in which the floating population is located than in the rural areas, if we establish a complete control system for family planning work among the floating population, we believe that our family planning work there will certainly see great short-term success. This has been proved through practice in many cities. For instance, in the Beidaihe District of Qinhuangdao, stronger control of the floating population's individual industrial and commercial households resulted not even one outside-the-plan birth in 1990.

The second kind of population flow between urban and rural areas is the shift of urban population to the countryside. In rural areas where productive forces are less developed, the more backward economic and educational development means that highly skilled manpower is in short supply. While work income is generally lower in these areas, workers with skills that are in short supply can earn even higher incomes there than in developed urban zones. This is why China is currently experiencing a population flow from cities, where productive forces are more developed, to rural areas; this population consists mostly of technicians and mental laborers. A 1988 survey found that 40,000-50,000 retired staff members, workers, and scientists and technicians from Shanghai went to other places in China to work as technical advisors, consultants, or technicians, many in township enterprises. When this population provides intellectual support to agriculture, it obviously speeds up rural economic development and has a highly positive impact on rural family planning work.

II. Bringing About a Population Flow Between Urban and Rural Areas That is Even More Advantageous to Population Control

It is not hard to see from this analysis that the population flow between urban and rural areas is more beneficial to than detrimental to overall population control, and so we should encourage it from a population control perspective. But we should not be satisfied with the status quo. In addition to further intensifying our family planning control of the floating population, we should also take advantage of the rural population's fascination with cities to bring about a population flow between urban and rural areas that is even more advantageous to population control. We should do this as follows:

A. When "converting peasants to nonagricultural work," family planning should be given a one-vote veto to absolutely not permit the "conversion of peasants to nonagricultural work" by those who do not meet family planning requirements.

B. When allowing those who provide their own grain rations to settle in cities, we should similarly give family planning a one-vote veto. Other conditions being equal, preference should be given to single-child parents, with those who provide their own grain rations who have already settled in cities being resolutely sent back for any violation of pertinent family planning laws or regulations.

C. When recruiting peasant contract workers, enterprises must sign family planning contracts, give recruitment preference to single-child parents, and resolutely fire all who violate contract regulations, in addition to collecting specified fines.

D. Married women of childbearing age who enter cities must be given deadlines for acquiring birth control certification from designated hospitals. They will not be allowed to stay temporarily or engage in business operations in these cities without this certification.

AGRICULTURE

GATT's Potential Impact on Agricultural Development

93CE0232A Beijing NONGYE JINGJI WENTI
[PROBLEMS OF AGRICULTURAL ECONOMY]
in Chinese No 11, 28 Nov 92 pp 49-52

[Article by Deng Zehui (6772 3419 6540) and Cai Yuanyuan (5591 3293 0337), Chinese People's University, and Beijing Industrial University Foreign Economic Relations and Trade Department, Beijing: "Effect on China's Agricultural Development of the Restoration of GATT Signatory Status"]

[Text] China is in process of negotiating restoration of its GATT signatory status with the GATT parties concerned, and some rather satisfying progress has been made. Once China's status as a signatory to GATT is restored, all trade and economic relations will enter a new international climate in which, to a fairly large extent, trade is rather highly liberalized and the import and export trade is freer. Faced with this new international environment, even though they may gain numerous difficult to obtain opportunities, some sectors and enterprises—including industry—may be directly jolted rather severely. Agriculture is also no exception.

Just what effect might this have on China's agriculture? What can we do to meet GATT requirements? How can we obtain greater benefit from GATT's institutions and mechanisms? In this article, I will express some personal views on this issue. When I am off the mark, I hope to receive comments and corrections.

I.

The extent of free trade in international agricultural products has always been relatively low, which is to say that every country has always been rather highly protective of its agricultural products. Consequently, some

people maintain that prior to the Uruguay Round, trade in agricultural products was outside the purview of GATT. Clearly, this statement is not entirely without foundation.

Developed western nations protect agricultural products very much; they clearly discriminate between industrial manufactures and other products. Data from United Nations departments concerned show a 144 percent protection rate for Japan; 84 percent for the countries of northern Europe, 54 percent for the EC, and 16 percent for the United States, which ranks fourth.

Reasons for such a high degree of protection over a long period time may include the character of agricultural production and because the primitive industry that is agriculture needs more protection, as well as because the stability of farm product markets is rather directly related to social tranquility. This is particularly so when agricultural productivity is not high.

The multilateral negotiations in the current Uruguay Round have placed trade in agricultural products completely within GATT. They have made it an important matter in making world trade freer, as well as a key issue affecting the success or failure of the Uruguay Round. However, the present state and future prospects for Uruguay Round agricultural product negotiations suggest that the impetus given to freer trade in agricultural products will not likely be very great. It is estimated that it will take five to six years before current agricultural product subsidies might be cut approximately one-third. Clearly, unimpeded trade in agricultural products may still require a very long process.

Today, the principal measures (or obstacles to the liberalization of trade from another angle) that every country (particularly developed countries) use for the protection of agricultural products are export subsidies, import tariffs, limitations on import quantities, the setting up of trade barriers, and closing markets to one or more agricultural products, etc. on quarantine or health grounds. The means that receive most condemnation are export subsidies and the closing of markets.

Even though founding of a fairly liberalized international agricultural products trade system has just begun, its base point is still relatively low, and it is riddled with contradictions; nevertheless, fuller participation of agricultural products in the liberalization of trade, steadily increasing the extent to which they are traded freely is an inevitable trend of development that cannot be reversed.

Since the degree of free trade in agricultural products is fairly low, can one conclude that restoration of China's GATT signatory status will have no impact on China's agriculture? Clearly, one cannot.

Even though some GATT clauses permit a certain amount of elasticity and exceptions in the nullification of quantity limitations and restricting export subsidies in

the agricultural products field; nevertheless, the principles pertaining to tariff allowances and non-tariff limitations still play a role to a certain extent. This role will inevitably have an effect on China following restoration of its status as a signatory to GATT. On the import side, since a certain degree of relaxation of limitations on import amounts is required, the amount of wheat imported may rise markedly. In addition, imports of products on which returns are high such as edible oil, sugar, and bananas may also increase. On the export side, as a result of the relaxation of limitations on foreign imports as well as improvements in China's trade environment, exports of the products in which China enjoys some relative advantage such as corn and soybeans, as well as livestock products, aquatic products, and fruits may increase markedly. In particular, a marked increase may occur in the export of agricultural products to Japan. Japan is a large importer of agricultural products, and it is also a near neighbor to China. However, it places numerous restrictions on agricultural product imports, including even greater restrictions on Chinese agricultural products. Once China's status as a GATT signatory has been restored, we can invoke pertinent clauses of GATT in strenuous negotiations with Japan, thereby impelling Japan to open its agricultural import markets to China more and at a deeper level.

One point that must be emphasized is that once the Uruguay round of multilateral trade negotiations is concluded, the effect on China's agriculture will be more marked. The Uruguay Round is the eighth round of GATT multilateral trade negotiations, and the negotiations on trade in agricultural products are the most important of 15 topics in the Uruguay Round. As was said above, this round has decided to put trade in agricultural products completely within GATT, and it will make another large stride toward the goal of liberalizing trade.

II.

Negotiations on agricultural products in the Uruguay Round are focused largely on how to reduce agricultural subsidies. Since the degree of liberalization of trade in agricultural products has always been relatively low, all countries—particularly developed countries—have adopted numerous protective measures regarding their agricultural products, agricultural subsidies being the most prominent one. Most recently, especially, protectionism in the agricultural products trade has become increasingly rife, including competition to increase the various agricultural products export subsidies that are a part of export subsidies. This has reached extremely shocking proportions. According to data from the Economic Cooperation and Development Organization, recently (meaning 1990 and 1991) the EC's various agricultural subsidies totaled \$8 billion per year, and America's totalled nearly \$4 billion. On specific items (taking 1986 as an example), the EC's subsidization rate was 62 percent for cereal grains, 75 percent for sugar, and 100 percent for dairy products. Nor was the United States to be outdone. One fairly egregious example in

1986 was America's spending of \$6 billion on support for \$2 billion worth of corn exports. The steady increase in agricultural product subsidies extremely damaged and distorted the order, the pattern, and prices in the entire international agricultural products market, which mired trade in international agricultural products in a predicament from which it is difficult to extricate itself, and even directly affected the recovery of the entire world economy.

In order to reverse this abnormal situation and eradicate the various trade impediments existing today, the Uruguay Round of talks on agricultural products headed by the United States and including 14 agricultural products-producing nations including Canada, Australia, Argentina, Brazil, and Thailand on one side, and the EC on the other are diametrically opposed. Each hopes that the other party will accept its proposals. At the outset, the EC proposed that the 1986 subsidies be taken as the base point for reducing overall agricultural subsidies 30 percent by 1996. The United States deemed such a reduction to be far from sufficient, however. It demanded a 75 percent reduction in production subsidies and a 90 percent reduction in export subsidies within 10 years. Naturally, in the course of several years of negotiations, the two sides have looked daggers at each other or parted on bad terms at times, but they have also made mutual compromises, shaken hands, and uttered kind words at other times. Nevertheless, they have been unable to reach a consensus. It was because of their long stalemate that GATT General Secretary Arthur Dunkel made the so-called "chairman's ruling" on 20 December 1990, which provided as follows: Taking 1986 - 1990 as the base period, reduce production subsidies 20 percent between 1993 and 1999. Even though this plan is does not differ very greatly from the EC - United States compromise plan, neither side has accepted it as yet.

In recent years, however, light has appeared in the Uruguay Round of negotiations on agricultural products. Finally, the possibility of reaching an agreement has markedly increased. First of all, Dunkel's plan may finally provide a new opportunity for further agreement by both sides. Second, despite mutual recriminations on the part of the protagonists, they have repeatedly expressed willingness to compromise. Third, most importantly, in May 1992, the 12 EC member states reached an agreement to reform their shared agricultural policy. This agreement provides as follows: to lower the grain procurement price 29 percent, and to lower the beef procurement price 15 percent over the next three years. Obviously, this provides a basis for the EC to accept a compromise plan for cutting subsidies. (Note: Since the EC practices a price support policy, an official lowering of procurement prices means a reduction of agricultural subsidies; however, such a plan for reforming common agricultural policies has been steadfastly opposed by EC member states in the past).

The foregoing estimate of the situation suggests that achievement of a compromise agreement in the Uruguay Round of trade negotiations on agricultural products is

entirely possible during 1993. A guess on the amount by which subsidies will be reduced is that current subsidies will be cut approximately one-third within five or six years.

III.

Once the Uruguay Round negotiations on trade in agricultural products succeeds, what will be the effect on China? Generally speaking, the effect on China will not be small, but it will be mostly favorable. Since developing countries have not had the financial resources required to provide high subsidies for the export of their agricultural products, their export competitiveness has been seriously hurt. The International Monetary Fund has estimated that were the industrial countries to abolish their agricultural product subsidies, developing countries could increase their exports by \$50 billion annually. China is a developing country, and it is largely an agricultural products-exporting developing country; therefore, it can benefit by getting a substantial portion of this amount.

In addition to benefitting from greater exports, China's agriculture can also benefit from being able to sell at higher prices than at present. During the past decade international trade in agricultural products has been in a protracted slump. Not only has the amount of trade grown extremely slowly, but prices have also been extraordinarily low. Representative market price statistics on international trade in agricultural products show that for 10 out of 20 influential staple commodities, including grain, meat, cotton, sugar, and coffee, the 1989 price was more than 20 percent lower than in 1980, and for six it was between 10 and 20 percent lower. Only three were higher than the 1980 price. Relevant data from the United Nations Food and Agriculture Organization show that even when calculated at the nominal price in United States dollars, the overall level of international agricultural product prices at the end of the 1980's was still lower than a decade previously. After adjusting for inflation, this price difference was even greater. Figured at constant American dollar prices, prices fell nearly one-third from 1980. Once the Uruguay Round of negotiations on agricultural products succeeds, the gradual reduction in agricultural product subsidies is bound to bring a marked turn around in currently depressed international agricultural product prices that will bring a rise in all agricultural product prices. Certainly a rise in international agricultural product prices will be disadvantageous for China's wheat imports. If China increases its wheat imports, it will have to surrender more foreign exchange. However, in China's agricultural products import-export trade, exports are substantially larger than imports; thus, the benefit is greatest and basic.

IV.

The effect on China of the restoration of its GATT signatory status may also be reflected in the extent to

which China's agriculture complies with GATT requirements. The higher the compliance, the greater China's gain from the GATT institutions and mechanism.

So what can China's agriculture do to comply better with GATT. How can it obtain a greater gain from GATT institutions and mechanism?

(1) Need for Thorough Reform of the Rural Economy. Restoration of China's GATT signatory status means that China's agriculture will mostly enter an international environment in which trade is largely free. It will be able to export more agricultural products, and more foreign agricultural products can also be imported. Under these circumstances, China's fairly ancient, fairly traditional, and fairly small scale and scattered agricultural production will find it very difficult to adjust and very difficult to establish an unassailable position. Prices of many of China's agricultural products are even considerably higher than the international price, and some prices are distorted. Quite a bit of administrative cutting up exists in the course of their circulation as well, all of which is detrimental to doing business with foreign countries. When the presently very small number of economic entities entering the market and their weakness is added to this, even where a little strength exists the numerous limitations and restraints encountered in foreign trade make effective competition in international markets and in the same industry very difficult. Unless these problems are pretty well solved through further reform, not only will it not be possible to conform to GATT, but much less will it be possible to contemplate better use of GATT institutions and mechanisms to win greater benefits for China.

(2) Need To Win the Greater Differential Benefits Allowed by GATT Provisions. As was said above, international protectionism of agricultural products is much greater than for other products; however, GATT gives developing countries a certain amount of preference in the form of tariff concessions and non-tariff measures. Therefore, when considering the "Entry Conditions Detailed Rules and Regulations," (an important part of China Working Group's negotiations with GATT), or in subsequent negotiations, while agreeing to relax import restrictions, we must strive to gain more of these differential benefits. This includes allowing China the right to enjoy more export subsidies for certain agricultural products; requiring developed countries not to prevent China from continuing to enforce agricultural development policies and obtain a full supply of grain; requiring greater elimination of trade barriers set up on the pretext of health and quarantine; and other rights that help improve China's conditions for agricultural product competition and conditions for entering markets, etc.

930 Great Enhancement of Agriculture's Ability To Protect Itself. Gaining a certain amount of protection outside of agriculture is indispensable, but most important is finding ways to enhance ability to protect ourselves. Faced with a thicket of tough competitors in the same lines, the most fundamental method is large scale spread

of scientific and technical achievements in agriculture, increasing agricultural inputs to bring about a fundamental change in the backward state of the country's agriculture. In past efforts to move ahead in this correct direction, results were not entirely as had been hoped because of the lack of a market competition mechanism and entrepreneur's economic strength. Once China's status as a GATT signatory has been restored, the situation will be different. If we only treat "science and technology to invigorate agriculture" and "increase inputs" as slogans, the result is bound to be elimination through merciless competition.

(4) Active Improvement of the Country's Agricultural Production Structure, the Better to Make the Most of Its Advantages in Striving To Win Greater Comparative Trade Benefits. Self-protection is very important, but "doing" is more important and holds more positive significance. We must put more energy into expanding exports. Only by getting more kinds and larger amounts of agricultural products into the international market can we gain greater benefit from the GATT institutions and mechanism. Thus, we must devote a major effort to readjustment of the agricultural production structure to create basic conditions for expanding exports. For example, consideration might be given to further readjustment of the production structure in northeast China (or even including a part of north China), greatly increasing the percentage of corn and soybeans, while cutting back on the wheat growing area so as to help expand corn and soybean exports. In coastal areas and along the Chang Jiang, the agricultural production structure that tends to have a marked self-sufficiency character but from which economic returns are relatively poor might be further improved, etc.

(5) Building of High Base Line and Commercial Agricultural Export Production Bases for the Development of High Value Product Exports. In building agricultural export production bases to meet new circumstances after China enters GATT, special emphasis must be placed on bases having a high base line and a commercial character. Scattered investment and low base line bases will find competition difficult and will be unable to get into international markets. Lack of understanding of the commercial mechanism and business, particularly lack of unified business will makes it impossible to produce low cost, high quality, highly standardized, fairly large numbers of export products that meet international processing and packaging standards to say nothing of having an advantage in information and marketing conditions.

The export of high value agricultural products is a new trend in the modern world. In both the export structure and the demand structure of international agricultural products markets, the percentage of high value products has markedly increased in recent years, and changes in the export structure do not meet changes in the demand structure. Therefore, for China to expand agricultural product exports and to more to gain greater benefit from

GATT institutions and mechanism, it will have to devote strong attention to high value products.

(6) Training of Skilled Personnel and Better Research. A large number of persons versed in the application of GATT provisions and agreements and expert in international trade regulations and practices must be trained with all possible speed; otherwise, it will be very difficult to take the initiative in meeting GATT requirements, to say nothing of gaining greater benefits from GATT institutions and mechanisms. In our past exports of products to Europe, we sometimes have not asked to enjoy the general preference system (when the importing country had announced it would grant us general preference treatment). In the absence of fairly thorough research, it is very difficult to propose adequate responses to situation. Not only is this the case when requesting admittance, during examination and verification, and in drafting agreements, but it is also the case in all concrete negotiations following admission. Examples at the present time are Uruguay Round talks on agricultural products and their concrete effect on China; the trade environment for China's agricultural products under GATT; China's import-export tactics in the current processing of liberalizing trade in agricultural products, etc., all of which hold extreme importance for our future work. Naturally, with greater participation in international production and division of labor, and international trade, many more topics will require study. Study of the problems in China's agricultural economy will not by itself solve the foregoing problems; a new widening of the field of vision and basic lines of thinking on readjustments and study are needed.

Negotiated Grain Price Reaches New Low

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6 Nov 92 p 1

[Article by Chen Lijun (7115 4409 6511) and Dai Weiping (2071 5898 1627): "Negotiated Price Lower Than Fixed Price: Another Slump in Negotiated Price Requisition Procurement Grain Markets"]

[Text] Deregulation of the grain market has worsened rather than improved the slump that has existed for many years. Negotiated prices, which have gradually falling during the past several years, did not rebound in 1992; instead, they hit bottom. For the first time the negotiated price for requisition procurement grain is lower than the fixed price in Jiangsu. This has become a sore point in state procurement of the autumn grain crop in 1992 and it seriously dampens peasant interest in grain production. In 1992 the negotiated price of hybrid paddy rice procured through requisition is 0.22 yuan per 0.5 kilograms, or 0.04 yuan per 0.5 kilograms lower than the fixed procurement price. This is 0.08 yuan per 0.5 kilograms lower than in 1991, or a decline of approximately 30 percent. As a result, the amount of autumn grain procured stands at only about 60 percent of the amount procured during the same period in 1991, and procurement is proceeding more slowly than in 1991.

The main reasons for the plunge in the procurement price are as follows: First, grain is more difficult to sell than in previous years. With the current separation of grain procurement authority from fiscal authority, once fiscal contracting has been completed, areas where grain is in short supply are unwilling to expend the large amount of interest funds for procuring grain. The new element resulting from this policy, namely that grain-short areas that have funds will not buy a half year's supply of grain from grain-producing areas, causes a further drop in grain sales. The result is a buyer's market in which both would-be buyers and would-be sellers both depress prices. The negotiated price paid for the 25.5 million kilograms of requisition procurement price grain purchased at a negotiated price was 0.31 yuan per jin. So far, only slightly more than 5 million kilograms has been sold. It is a foregone conclusion that the government will take a loss, and it is anticipated that autumn grain sales will likely meet the same fate. Second, there is a further lack of interest in the kinds of grain offered. This problem was most conspicuous in 1992. More and more, people are giving the cold shoulder to hybrid rice and interest in intermediate paddy rice is waning even more, while the demand for japonica rice has risen greatly. However, the product being offered is seriously at variance with the product being consumed. In 1992, 110,000 mu of conventional intermediate paddy rice (one of the varieties that the state refuses to procure in 1992) was planted during the summer, to be sold in the negotiated price requisition procurement market. Output totaled more than 40 million kilograms; however, despite an increase by one-half in the area planted, only 30,000 mu of japonica rice was grown, output totaling approximately 12 million kilograms. No market exists for the intermediate paddy rice, while virtually all of the japonica rice has been grown for personal consumption rather than for sale to the state. Responsibility for this state of affairs does not rest solely with the peasants. It is not that peasants do not understand that "rare things are valuable, and plentiful goods are cheap," but that they lack money, skills, fine crop varieties, and successful precedents. Consequently, they vacillated indecisively, and ultimately were unable to keep pace with market changes.

Key Problems in Rural Reform

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[Article by Rural Economic Research Center: "Peasant Income, Structural Readjustments, and Fostering Markets—Several Problems in Chinese Rural Reform During the 1990's"]

[Text] Chinese agriculture scored world-astounding successes during the 1980's, largely as a result of implementing responsibility systems in rural areas, principally the household contract responsibility system, and the promotion of a series of reforms based on it. The "decisions" of the Eighth Plenary Session of the 13th Party Central Committee and Comrade Jiang Zemin's

report to the 14th National Party Congress fully affirmed the achievements and experiences of rural reform during the 1980's. They also clearly set forth both the requirements and the direction for continued intensification of rural reform and extension of the fruits of reform. The people of the whole country share an interest in implementing the spirit of the "decisions" of the Eighth Plenary Session and Comrade Jiang Zemin's report to the 14th Party Congress, holding fast to the main line of rural reform during the 1990's, and advancing both agriculture and rural economic growth to a new stage in order to lay the foundation for realizing the goal of a comfortably well-off standard of living for the whole country by 2000. In this article we present some fundamental ideas based on experiences in rural economic reform during the 1980's, some major deep-seated problems that came to light during the late 1980's, and tasks in development to be faced during the 1990's.

I. Synchronous Growth of Supply and Income

One prominent problem in rural economic development in recent years has been the basic stagnation of peasant income despite an overall upturn in the supply of farm products. Between 1989 and 1991 net per capita income nationwide for peasants increased from 545 to 708 yuan. However, after accounting for price increases, real per capita income increased only 12 yuan, an annual rate of increase of only 0.7 percent. Meanwhile, the output value of agriculture calculated at constant prices for the same period increased 5.4 percent per year per capita of rural population, increasing 2.2 percent for grain, and more than 6 percent for other agricultural products—including cotton, oil-bearing crops, sugar-bearing crops, meat, poultry, eggs, and dairy products, fruit, and aquatic products. An increased output in agriculture with little or no increase in peasant income is unprecedented during the previous 10 years of reform, and has been rare since the founding of the people's republic.

The aforementioned situation is generally acknowledged to have been due to two factors. One is the unreasonably low price paid for farm products, and the other is the effect of improving the economic environment and rectifying the economic order since 1988.

We believe that these factors reveal only the short-term, direct reasons that damage increase in peasant income. Even more profound reasons account for the slowing of the growth of peasant income.

People have gradually come to accept the fact that the speed of increase in peasant income depends more and more on the speed of development of and returns from rural non-agricultural industries. Implicit in this is the realization that the current rural agricultural production structure can no longer produce fairly rapid growth in peasant income. This fairly general realization has an objective basis, we believe.

First, since the beginning of reform and opening to the outside world, a gradual change has taken place in the production and supply of agricultural products. This

change has been manifested primarily in a change from a general shortage of agricultural products to a basic balance between market supply and demand. This super-normal growth was closely related to the former tremendous shortages in farm product markets. Once a balance between market supply and demand was attained, when market demand restrained farm product production and supply, peasants—as suppliers—were no longer able to ultimately decide the speed of agricultural growth. Normal growth could occur only through the role of the market. The correlation between increased output and increased income was no longer a simple one-to-one proposition.

Second, on the farm product demand side, once the stage of supplying people with sufficient food and clothing was basically over, the elasticity of demand for farm products was not great. At the same time people increasingly demanded variety and quality when buying food. This change in consumption trends was bound to have a direct effect on the amount, quality, and make-up of farm products. That is to say, henceforth an increase in varieties and quality was of greatest importance in supplying food for urban resident consumption. The structure of agricultural production had to respond to this.

Finally, as the degree to which farm products were exchanged in markets increased, market competition became increasingly intense. Once China's position in GATT is formally restored, farm product markets will become more internationalized. Today the prices of the main farm products in China, such as grain, cotton, edible oil, and sugar, are close to or higher than the international market price. Very many other products have no competitive advantage in price, quality, or variety. Even though the opening of farm product markets to the outside world will bring new opportunities for agricultural growth, at the same time the pressures it puts on farm product supply will be many and long in duration.

The role of the aforementioned factors means that increasing peasant income is a long-term and perplexing problem.

If real peasant income begins to increase slowly or even stagnate over a long period, this will adversely affect the peasants' livelihood, development of the rural economy, the national economic cycle, and even relations between city and countryside.

It is also bound to have an adverse effect on rural education, culture, the development of human talent, and general improvement in peasant capabilities, thereby adversely affecting both the economy and the overall quality of social life.

From the point of view of administering long-term agricultural developmental strategies, the pressure on farm product supplies is very great. The main goal of government agricultural policy has historically been

ensuring that supply goals are realized. At the microeconomic level, however, only when peasants' income increases do peasants expand supply. If peasant income expectations are poor, government supply goals will also be hard to realize. Since the advent of rural reform, and particularly since the mid 1980's, there has been a marked contention between supply and income goals, which has hurt all rural economic growth.

The rural economy since 1978 may be generally divided into three periods of development:

1978-1985: growth of both agricultural production and agricultural income.

1985-1988: a period of limbo in growth of peasants' agricultural income.

1988-1991: a rise in peasant production and stagnation in peasant income from agriculture.

Because of the severe shortage of staple agricultural products—particularly grain, cotton, and oil-bearing crops—during the first period, peasant expansion of supply brought a corresponding increase in income. Supply and income goals were pretty much identical. Nevertheless, this was a rather special period. Once supply and demand became largely balanced, this situation could not be sustained.

During the second period of balance between supply and demand for grain, cotton, and edible oils, marginal returns diminished. Driven by the goal of increasing their income, peasants began to readjust the crop mix they grew and the structure of rural industry on the basis of market demand. They grew more cash crops, developed the animal husbandry and aquatic products industries, and particularly accelerated development of township enterprises, thereby maintaining steady growth of peasant income. However, since the readjustments that the peasants made were spontaneous, and sometimes too vigorous, the government lacked reliable means for ensuring supply; consequently output of some main agricultural products faltered. Because of the difference between the potential for and the ability of adjusting the structure during this period, even though peasant income increased overall, the income gap widened between one area and another and between one peasant household and another.

Since 1989, governments at all levels have stressed various measures for ensuring supply of the main agricultural products, and have put a damper on readjusting the rural economic structure. Peasants have made great sacrifices to increase supply, but their incomes have not increased in consequence. Since government measures are applied over a wide area, the stagnation of peasant income has been universal during this period.

Previous experience shows that ensuring steady growth of the rural economy requires correct handling of the relationship between expanding market supply and increasing peasant income. During the remaining eight

years of the 1990's the basic task of the rural economy should be continued intensification of rural reform, rationalizing the rural economy's long-term development mechanism, and avoiding favoring either supply or income at the expense of the other to ensure sustained, steady, rapid, and synchronized increases in both supply and peasant income.

II. Readjusting the Economic Structure To Accelerate Technological Progress

There are two ways to ensure steady growth of peasant income. One is to adopt a price protection policy for the supply of principal agricultural products, and the other is to use technological progress to promote readjustment of the agricultural structure and the rural economy.

At the present time prices of an overwhelming majority of the country's agricultural products are as they should be. That is to say, market supply and demand decides prices for an overwhelming majority of agricultural products. The prices of certain staple products that the state still controls are actually not much at variance with the market price. Were a price protection policy chosen, this would actually require the state to disburse money to make the price of farm products somewhat higher than the market price in order to increase peasant income.

Were China to rush to apply income protection measures on a large scale at the present stage, not only would attaining the goal of really protecting agriculture be unlikely, but the cost of transferring rural labor could increase, which might make developing non-agricultural industries uneconomical. A balanced look at the situation from many angles suggests that use of price protection measures to satisfy peasant income goals would very likely result in the gains not being worth the losses. For the time being at least, this course should not be adopted.

Therefore, the only possibility is readjusting the rural economic structure, including the product mix and the industrial structure. Spurring technological progress can help fully realize the potential for readjusting the agricultural product mix, thereby enabling agriculture to truly become a "premium quality, high yield, high return" industry. At the same time unflagging efforts must be made to readjust the industrial structure, lower both the number of people and the percentage of the population employed in agriculture, and to promote the modernization of rural villages. Full readjustment of the structure must be done to satisfy market supply requirements and to ensure sustained growth of peasant income.

The main potential for readjusting the agricultural product mix today lies in the kinds and quality of products. The trend of changing consumption shows a per capita caloric intake in China of 2,900 kilocalories per day, an amount far above the level of a developing country. The protein intake remains overly low, however. In the future, foods with a protein and multiple nutrient content will continue to enjoy very good market demand. In addition, people will become ever more choosy about the freshness, appearance, color, and luster

of food. Therefore, to meet changing consumption trends, readjustment of the product supply structure must be done in conjunction with the application and development of technology. So long as a steady increase in quantity is ensured, the emphasis should be on full development of varieties and quality of farm products.

Rural non-agricultural industry must continue to develop fairly rapidly. For many years to come a sustained rise in peasant income will be determined to a very great degree by how fast rural non-agricultural industry is developed and generates returns. In developing non-agricultural industries during the 1990's, not only should we continue encouraging peasant operation of industries that process industrial goods and tertiary industries, but we should also emphasize fostering various kinds of agricultural products processing industries. As the commodity economy gradually matures, agricultural product processing industries will hold an extremely important position in matching markets with peasants, transmitting supply and demand information, spreading all kinds of new technologies, and in applying all sorts of new technologies to help the peasants develop markets and production.

Encouraging peasants to run processing industries themselves can enable them to add value to products and gain returns. It can also link them more closely to markets. Actually, this is a kind of longitudinal development in farm product structural readjustment. Readjusting the product mix and the industrial structure must be done in conjunction with fully exploiting local strengths. China's rural villages cover a vast area in which weather, climatic conditions, industrial resources, and the caliber of personnel vary greatly.

Only by suiting general circumstances to specific local and regional situations can all rural villages obtain general benefit from structural adjustments. We must avoid widening the gap between one region and another too much.

When readjusting the rural industrial structure, one real difficulty is how to accelerate a change in the employment structure. Compared with readjustment of the industrial structure, the change in the rural employment structure is relatively behind the times.

One feasible way to change the employment structure is to promote the urbanization of rural villages and of small township enterprise processing zones. The right concentration of township enterprises can both save public expense and expand the demand for services, thereby spurring development of tertiary industries.

With the commercialization of land during 1992 and the development of tracts for non-agricultural use, some township enterprises that are able to do so have begun to invest or buy shares outside the community. They are investing in industries where conditions are fairly good

or in various development zones. This very good beginning shows that, with rational guidance, getting township enterprise to concentrate on the development of small zones is entirely possible.

III. Rapid Development of Production Element Markets

In realizing structural readjustment goals, no longer can traditional plan methods operate effectively by relying on market changes; only a fine market environment can be relied upon.

After more than 10 years of reform, a peasant production stimulus mechanism has taken preliminary shape in China, but optimum allocation of resources is relatively behind the times. Consequently, despite some changes in the investment structure and readjustments in the employment structure, no new ground has been broken. The pattern of "small but all inclusive, and large but all inclusive" has not changed fundamentally. One of the basic reasons for this state of affairs is that development of the product market and the production element market is not synchronized. China's farm product markets have been largely decontrolled, but labor, capital, and land markets—production element markets—are still very far from being decontrolled to a corresponding extent; obstacles to labor mobility, capital flow, and turnover of land are numerous. Other reasons are that market fluctuations are too great; there is a lack of a stabilization mechanism; prices rise and fall erratically; areas frequently use exclusionary practices that have nothing to do with prices against each other; a single unified market nationwide has not formed; and there is an inability to full use regional advantages. For these reasons, peasants can only adjust the investment structure by marginal increases to the existing structure; consequently the extent of the readjustment cannot be very great, nor can it be very stable.

This shows clearly that the main line of rural reform during the 1990's should emphasize advances in developing key production element markets even while continuing to intensify reform of product markets. This should be done in order to set the stage for and guarantee full and fairly extensive readjustment of the rural product mix and the industrial structure, and to optimize resource allocation.

Even though farm product markets began operation earlier than key production element markets, they still continue to have considerable problems. First, approximately 80 percent of all farm products in the country have been deregulated. Except for certain products under compulsory control because of special requirements to protect the ecology or resources, agricultural products are mostly regulated by market forces.

One important problem today is that some products have not been completely deregulated. A situation of repeated deregulation and reregulation has never been completely solved. Second, following the gradual deregulation of product markets, a price stabilization mechanism has not been promptly established. Prices rise and

fall too much; fluctuations are too frequent; peasants are at a loss as to what to do; and consumers are very dissatisfied. Furthermore, numerous prohibitions still limit peasant and other economically diversified entities from entering the market. Complete and open competition has not yet been fully achieved in farm product markets. One way to solve this problem completely is to establish and improve a trading system centered around wholesale markets, changing government control in the commodity circulation area to direct organization of product allocation and direct business dealings, and using control and supervision of wholesale markets to build a normal market order that ensures that all economic entities can enjoy equal, open, and full market competition.

The purpose in developing key production element markets is to stimulate rational labor mobility, capital flow, and turnover of land.

The labor market: Free movement of the work force has become a requirement and a trend in developing the rural economy. Today tens of millions of people in the work force are making a living by moving across regional lines. The key to labor mobility and reform of the rural employment structure lies in reforming the household registration system and exploring new methods of population control. Smooth reform of the ossified household registration system requires the simultaneous exploration of a new city and town social security system.

The capital market: The ill-defined property ownership system not only restricts the free flow of capital and the seeking of the best economic returns, but also limits the mobility of the rural population. An effective way of solving this problem lies in using a share system, and allowing shares to be freely transferred, with certain limits, as a means of ensuring that tangible assets can be preserved intact and safeguarding peasants' property rights.

The land turnover market: Even more difficult than the problem of peasants' assets is the formation of a rural land market. Solving this difficulty requires extending the period of land contracting and separating land use from the social security system. Permitting the transfer of land contracting rights for payment can serve as a starting point in encouraging land liquidity, with land gradually becoming concentrated in the hands of skilled farmers who can realize returns from the scale of operation, thereby substantially increasing the income of the agricultural work force.

Once a key production elements market exists, an operating organization that is able to reorganize the key elements effectively is needed. Thus, the formation and expansion of a market organization must be fostered at once.

Economic organizations are built and operated according to their own laws in a market regulation environment. Numerous and varied production, operational, commodity circulation, and sales organizations

have appeared in China's rural villages. Most of these organizations have adopted a voluntary cooperation system. The traditional cooperative-formation line of thinking must change fundamentally in order for rural cooperative organizations to become an effective means of promoting development of the commodity economy.

Community cooperative organizations that are bound together by land should also be steadily readjusted and improved in accordance with peasant requirements for developing a commodity economy.

In recent years an increasingly large number of peasant cooperative farming organizations have shown what they are capable of doing in markets.

Of greatest importance at the present time is ensuring the legal status of these cooperative organizations engaging in market business activity, ensuring that peasant producers will achieve their rights and interests in markets, and that wholesale markets for open and fair trading will be built.

SPC Research Group Examines Agricultural Problems

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[Article by Ma Xiaohe (7456 2556 3109) of the Institute of Economic Studies Research Group, State Planning Commission (SPC), and edited by Zhu Ran (2612 0088): "Agricultural Problems in the 1990's"]

[Text] The 1990's will be a critical period in the development of China's economy. How agriculture develops in this decade will directly help determine whether or not China will be able to accomplish the development objectives it has set as well as how China is going to accomplish them. As it stands on the threshold of this new decade, therefore, exploring the issues that agricultural development will face in the future and searching for practical approaches to develop agriculture is profoundly significant for the development of the entire economy.

I. The Road to Agricultural Development in 1990's

By pooling all relevant analyses, we know that owing to increases in population and income, the nation's demand for grain will rise by at least 160 billion kilograms to reach 574 billion kilograms by the year 2000. However, because of several constraints to be described below, the productive capacity of agriculture may well enter a period of sluggish growth. 1) Farmland resources will steadily decline in the next 10 years, diminishing room for growth. 2) There will be a dire shortage of funds even as capital and technology are increasingly replacing labor as the principal element of production in agriculture. 3) There is no end to the increase in surplus agricultural manpower, complicating the drive to bring about the scale management of land. 4) Agricultural

scientific research is not properly organized and technological reserves are weak. Meanwhile, agricultural development is becoming increasingly technology-driven. 5) Experts have forecast that in the 1990's natural disasters would occur frequently around the world. Already earth has entered a new active phase. As its lithosphere undergoes new changes in the 1990's, earthquakes, volcanic activity, flooding, and drought will be more frequent and the trend is for natural disasters to become more serious.

While reforms in land management have indeed greatly stimulated agricultural growth in the 1980's, they have also produced a consequence unfavorable to agricultural development in the long run, namely the over-division of land, leading to the fragmentation of the scale of land management.

Faced with the above-mentioned circumstances that may possibly occur in agriculture in the future, what course of agricultural development should we really choose for the 1990's to end our current plight? Several options have been put forward in the theoretical community:

1. The existing formula for increasing agricultural output has reached a dead-end (outlived its usefulness). Only by adjusting and changing the internal structure of agriculture can we solve the agricultural problems. Specifically, in the next 10 years Chinese agriculture should put less emphasis on grain and more on cotton, oil-bearing crops, and other cash crops, which can be exported to earn foreign exchange. Foreign exchange, in turn, can be used to pay for grain imports to close the gap in domestic output. (Wang Jian [3769 1696], "Adjusting Macro-Thinking: The Agricultural Problem," in ZHONGGUO GAIGE YU FAZHAN [CHINA REFORM AND DEVELOPMENT] No 3, 1989) This approach offers three advantages: a) Cash crops are more labor-intensive than grain crops. Through structural adjustment and other changes, we will be better able to absorb more labor and reduce the pressure created by surplus agricultural laborers looking for work in other sectors. b) Cash crops have a high added value and can earn more foreign exchange as exports. After paying for grain imports, we may still have enough foreign exchange left to finance industrialization, thus easing the shortage of foreign exchange. c) Adjusting the internal structure of agriculture in this manner will not cost substantial outlays, so there will be no competition with industry for funds. However, this option will not work, for the following reasons:

A. Cultivating cash crops on a large scale will inevitably cause a sharp decline in domestic grain production. The plan to offset the shortfall with imports will run into the following difficulties: a) At a time when we are acutely short of foreign exchange and most loans are becoming due, will the government be able or willing to set aside a substantial amount of foreign exchange to pay for grain imports on a large scale? Even if it is able to do so, it will have to pay a heavy price—upsetting a sound import-export balance, hampering or reducing industrial imports, and delaying industrialization. (Grain Policy

Research Group, Ministry of Agriculture, "China's Grain Policy Study") b) A huge investment in China's harbor installations, transportation systems, and warehouses is needed in the next 10 years for their renovation and expansion. Otherwise, they will not be able to handle the export of cash crops and the import of grains on a large scale. But can we raise the kind of funds needed to modernize and expand the above-mentioned facilities when we are so strapped for funds? c. There is a limit to what the international grain market can cope with. One thing it cannot sustain is endless import pressure from China. The fact that demand will increase faster than supply does not bode well for the international grain market in the 1990's. The threat of shortages is looming on the horizon. ("World Food Shortages Threaten," SHIJIE JINGJI KEJI [WORLD ECONOMIC SCIENCE AND TECHNOLOGY] No 39, 1991) Given this international environment, if China cuts back on grain production drastically and increases imports by an equal measure, it is bound to upset the supply-demand balance on the international grain market and exacerbate grain shortages. With China producing less and importing more, world grain prices will skyrocket and China as a major importer will suffer heavy losses. Another thing working against China is the plan by several major agricultural exporting nations and regions to slash agricultural export subsidies heavily in the 1990's. The United States has even put forward a "zero plan." (The so-called zero plan means abolishing all subsidies for agricultural products, thus reducing subsidies to zero.) If these plans are put into effect, the result will be less supplies from the exporting nations, which in turn, will push agricultural prices on the world market much higher still. This too would pose not a small threat to our drive to expand grain imports.

B. Any push to grow more cash crops will be constrained by the international trade situation and market demand. Let us first analyze the situation in international trade. As far as staple crops like cotton and oil-bearing crops are concerned, the current export pattern is the result of years of competition. Take cotton, for example. Owing to their competitive edge, the leading cotton-exporting nations and regions today, including the United States, Pakistan, the former Soviet Union, India, Egypt, and Sudan have consistently accounted for over 50 percent of the world's cotton export market. In the past 10 years (1976/77 to 1986/1987), their combined market share actually rose from 57.3 percent to 62.2 percent. (Lin Bi [2651 4310], "Development Trends in the World Cotton Market," based on research originally commissioned by the Rural Development Research Center of the State Council) To turn China into a leading cotton exporter with a sizeable chunk of the export market, we must proceed from what the market wants and then make ourselves competitive on two levels, price and quality. In the short run, we will not be able to compete with the above-mentioned nations on quality. On the other hand, if we try to compete by slashing prices, we will suffer huge losses. Now let us analyze market demand. In the

past 10 years, the growth in demand in the international market for agricultural products other than grain, particularly staple crops like cotton and oil-bearing crops, has not kept pace with the growth in supply. In absolute terms, the supply of these products also slightly exceeds their demand. Under these circumstances, if we go all out to expand the output of cash crops, we will inevitably be stuck with a huge amount of unsold overstocked crops, which will drive down their prices on the international market. The result will be a two-fold disaster. On the one hand, we will have a large quantity of cash crops sitting in the warehouses at home and unable to find a market overseas. Meanwhile, there is an urgent need to spend large sums of foreign exchange to pay for grain imports. At a time when we are acutely short of foreign exchange, China must trade a growing quantity of agricultural products for a diminished amount of foreign exchange earnings.

C. Compared to growing grain at home, importing grain does not necessarily make better economic sense. The reason is that since 1989 the renminbi has been devalued by wide margins several times. Following a devaluation, grain prices on the domestic market are notably lower than those of their imported foreign counterparts. Take 1990, for instance. That year the mixed average procurement price of a ton of grain at home was 716 yuan while the cost of importing a ton of grain was 820 yuan based on the average exchange rate. (According to *China Statistical Yearbook*, the cost, insurance, and freight of importing a ton of grain in 1990 averaged \$171.499. Given the average exchange rate between the yuan and the dollar for the year, this worked out to be 820.4 yuan.) The latter was 14.53 percent higher than the former. If the cost of importing a ton of grain is calculated based on the cost of trading the Chinese currency for the dollar, it would be 891.8 yuan, 24.55 percent higher than the domestic price. (In 1990 the renminbi was traded for the dollar at \$1 to 5.2 yuan on the average.) Judging from the way the economy is developing, the cost of trading renminbi for the dollar will continue to go up and the renminbi will continue to lose value relative to other foreign currencies in the future. If during the same period domestic grain prices rise less rapidly than or increase at the same rate as the devaluation of the renminbi, then the cost of importing grain will continue to be higher than domestic prices. In this situation, clearly importing grain would not be an economical proposition.

We can see from the preceding paragraphs that while this option has many advantages, it is not feasible because neither the domestic situation nor the international environment is equipped for it.

2. In the 1990's China should maintain its growth momentum in industry and continue to press ahead with industrialization. Use industrialization to bring about scale management in agriculture, thereby boosting both the overall agricultural output and the volume of agricultural commodities. People who hold this point of view argue that the real future of agriculture lies in scale

management. Scale management must be a function of industrialization. Only when China is industrialized will we be able to provide agriculture with funds, technology, and equipment and absorb surplus agricultural manpower quickly. Appropriate scale management is the only ultimate choice for Chinese agriculture, they argue, no need to go into detail. But there are these problems:

A. It is simply impossible for Chinese agriculture to rely on industrialization to bring about scale management in the 1990's. In the next 10 years industrialization in China would remain in a transitional stage with per capita GNP amounting to \$1,000. In this stage, industrial expansion will still be dependent on a huge infusion of funds. Since industrial accumulation alone cannot supply all these funds, some must come from outside industry. It is hard to see how industry can provide agriculture with funds, technology, and equipment.

B. According to our projections, there will be over 200 million surplus agricultural workers by the year 2000. Assuming that we will be able to maintain in the years ahead the growth rate and the rate of labor migration of the 1980's, then the nonagricultural sector in the urban and rural areas will be able to absorb about 70 million surplus agricultural workers at most in the next decade. (Computations were made based on data in the 1991 *China Statistical Yearbook* and the 1986 *China Rural Statistical Yearbook*. Between 1980 and 1990 China's rural nonagricultural sector absorbed 5.2 million surplus agricultural workers each year on the average. Other data came from a research report prepared by the former long-term planning office of the SPC. Based on the latter source, we calculated that about 20 million surplus agricultural workers migrated into urban areas to look for work in the nonagricultural sector, or 2 million annually on the average. We added the two numbers and came up with the figure of 7.2 million, the number of people who shifted from agriculture to the nonagricultural sector each year.) Since that leaves an army of 130 million surplus workers, there is no way China can achieve scale management in agriculture. Moreover, China is slated to correct its past emphasis on processing manufacturing industry and concentrate on basic industries that are more capital-intensive and less labor-intensive in the next decade. In fact the entire industrial sector will shift from an extensive mode of operations to an intensive one. No doubt these two changes will sharply diminish the ability of industry to provide jobs for surplus agricultural workers. In the next decade, the movement of surplus agricultural labor into urban areas and the rural nonagricultural sector may decrease even further, forcing more and more workers to languish in agriculture and making scale management an even more remote prospect.

We can thus see that China will remain unprepared in the 1990's to use industry as the engine of change and achieve scale management in agriculture. It follows that the plan to increase both overall agricultural output and commodity output through scale management cannot be translated into reality either.

3. With agriculture unable to support overall economic growth in the 1990's, our feasible option is to lower the rate of industrial growth, slacken the pace of industrialization, transfer resources like funds and technology to agriculture as appropriate, and use these resources to modernize traditional agriculture rapidly and selectively. (SPC Economic Research Group, "Agricultural Crisis and Solutions in Times of Economic Adjustment," GUANLI SHIJIE [MANAGEMENT WORLD] No 1, 1990) With a full substitution of labor for funds as its prerequisite, this kind of modernization relies quite extensively on modern technological inputs to bring about the intensive management of land and increase its yields. The advantage of this option is that the modernization brought about by the transfer of resources can notably boost the supply of agricultural products. But the problem is that holding down the rate of industrial growth for many years will inevitably lower government revenue sharply, an intolerable prospect to a government saddled with huge public spending and staggering under mounting debts, both foreign and domestic. Driving down the rate of industrial growth also will directly weaken the ability of industry to absorb agricultural workers, which in turn, will exacerbate the problem of surplus agricultural labor. Furthermore, there is no guarantee that lowering the rate of industrial growth will

necessarily result in the transfer of resources to the agricultural sector as scheduled. The reason is simple. When industrial growth and then the growth of government revenue decline, social public spending will not drop at the same rate but may go up on the contrary. To stabilize social economic development, the government will then have no choice but to reallocate some resources to that area. In the end, the resources being devoted to agriculture will remain inadequate, thus hampering the increase of agricultural output.

Furthermore, there is one flaw common to all these three options, namely that they all overlook one major factor: the changing demands of economic development for agricultural products in the next 10 years. Suppose domestic demand for agricultural products, particularly staple crops like grain, cotton, and oil-bearing crops, in the 1990's remains as strong as it was in the 1980's, and suppose the public's food consumption pattern continues to change as radically as in the last decade, then none of these three options can close the supply-demand gap of agricultural products. In our opinion, therefore, we should choose a road to agricultural development based on the pattern of social consumption of agricultural products.

Classification of Diet Types in the World

Type	Calories		Protein		Fat		Representative Countries
	Amount (calories)	From Vegetable Products (%)	Amount (grams)	Animal Protein (%)	Amount (grams)	From Vegetable Products (%)	
1. Mainly Animal Products	3350-3600	55-73	100	57-70	100-110	20-40	U.S., Canada, former Soviet Union, France, Australia
2. Equal Mix of Animal, Vegetable Products	2500-3000	about 80	80-90	45-55	65-75	40-45	Japan, Afghanistan, Sweden
3. Mainly Vegetable Products	about 2500	over 90	over 77	under 15	under 50	65-80	China, India, Egypt, etc.

Source: ZHONGGUO SHIPIN No 8, 1989

There are three major diet types in the world today: 1) An animal products-dominated diet. The United States, Canada, Australia, and the former Soviet Union all fall into this group. 2) A diet that puts equal emphasis on animal and plant products. This diet type is represented by Japan and Sweden. 3) Vegetable products-dominated diet. Representative of this diet type are China and India (see table). According to statistics, in countries with a diet dominated by animal products, the consumption of animal products has dropped notably as a share of total food consumption while the consumption of fruits and vegetables has risen proportionately. In countries with a diet putting equal stress on animal products, fruits and vegetables and in those countries with a diet dominated by plant products, consumption of animal products has been on the rise. Faced with these three diet types and changing trends, what kind of diet should China choose in the foreseeable future?

A. One choice is to allow the diet of the population to become more and more like that of advanced industrialized nations as the economy develops and per capita income rises. In other words, there will be a transition to an animal-products-dominated diet. When the consumption of animal products freely rises to a certain level, it will also level off on its own. This seems to comply with the usual laws of economic development. From the nutritional point of view, however, this option has nothing to recommend itself. In terms of the efficiency of resource utilization, too, a diet dominated by animal products is not the most economical consumption pattern. The relations between income level and nutritional demand are presented in diagram 1. [See below] In the diagram, abscissa indicates the level of economic development, that is, the income level; the ordinates indicate the volume of food demand, and F is the nutritional

demand curve. Let us assume that when the income level is I_1 and the food demand reaches Y_1 , people in the area bounded by 0, I_1 , F_1 , and Y_1 will remain malnourished; that when the income level reaches I_2 and the food demand reaches Y_2 , the nutritional needs of people in the area bounded by Y_1 , F_1 , I_1 , I_2 , F_2 , and Y_2 will be met; and that when the income level exceeds I_2 and the public's volume of food demand correspondingly also exceeds the critical line between Y_2 and F_2 , the diet becomes one of nutritional surplus. We can see from diagram 1 that as the income level goes up and public nutritional needs are being met, food demand will continue to pass the critical line between Y_2 and F_2 and will enter the territory of nutritional surplus. This will inevitably create an excessive demand for and waste social resources. In a nation of abundant food resources, such an excessive demand may have the virtue of averting a surplus crisis. On the other hand, in a nation with a food resource deficit, this kind of excessive demand will worsen existing shortages by forcing a transfer of resources from other areas to the area of food supply and demand, thus wreaking havoc with the appropriate allocation of resources in society at large. The fact that China is short on food resources determines that it should not emulate the choice of advanced industrialized nations. In choosing a diet type for the long haul, China should do its best to keep its people's nutritional demand curve below the critical line between Y_2 and F_2 in order to avoid wasting resources and damaging its people's health.

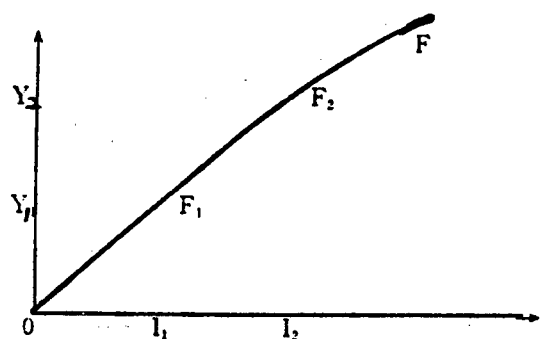


Diagram 1 Relationship Between Income Level & Nutritional Demand

B. Another option is to adopt the second diet type balancing animal products with fruits and vegetables. The people would be eating nutritionally sound and balanced meals, which is beneficial to their health. Normally when per capita GNP rises from \$300 to \$1,000, diet type (3) will naturally be replaced by diet type (2). However, judging from economic development projections for the 1990's, neither the extent of Chinese industrialization nor its agricultural development then will be able to support this kind of shift. As far as agricultural products are concerned, our supply of grain alone will fall short by 75 billion kilograms by the year 2000 if we are to maintain the current pace of transition to diet type (2), not to mention

matching Japan's level of per capita food consumption of the 1960's (when its per capita GNP was about \$1,000.) As noted above, neither accelerating agricultural growth nor relying on industrialization to generate the necessary foreign exchange to pay for imports can close this gap. Accordingly, we don't think it is advisable for us to shift toward diet type (2) in the 1990's. Instead we should retain the plant products-dominated diet. Specifically, Chinese citizens should keep their existing pattern of food consumption, neither spending relatively more on animal products nor continuing the transition to diet type (2). This is the only way to rein in society's excessive demand for agricultural products in the future and ease the pressure on agriculture. Dampening society's demand for agricultural products also will avoid triggering an outflow of resources into the consumption arena, thereby delaying the course of industrialization. Thus far we have made a choice contrary to the usual laws of industrialization: When its per capita income has catapulted China into the ranks of middle-income nations, the food consumption pattern of its citizens has not shifted to the second or first diet types, which has happened in most industrialized nations, but remains at the level of satisfying basic needs. Let us now take a look at clothing consumption. We believe clothing consumption in the 1990's should be less dependent on agricultural products, particularly cotton textiles, and more on chemical fibers. This is the only way to avoid putting undue pressure on the supply of the agricultural products involved. To consume agricultural products in the way described above, clearly we must do everything we can to check the public's excessive demand for agricultural products even as per capita income rises. Having determined how agricultural products are to be consumed in the future, let us discuss how agriculture should be developed. Based on our rough calculations, if agriculture is to develop the way it has been, it will not be able to satisfy the demand generated by the consumption pattern of agricultural products decided upon in this article. The only solution is to devote to agriculture an appropriate quantity of funds and a more generous infusion of modern technology so as to change the allocation of capital goods and achieve the intensive management of land. The question is: Where is the money going to come from? Our idea is to move funds from the consumption arena of agricultural products into the production arena to pay for the development of agriculture. The justification is as follows: A) Right now Chinese agricultural products are underpriced and the government is spending too much to subsidize the consumption of agricultural products. This policy encourages consumption and discourages production and as such is inconsistent with our chosen consumption pattern for the 1990's. In the future only by adjusting the consumption prices of agricultural products and scaling back government subsidies at the consumption end can we effectively prevent a change in the public consumption pattern as its income rises. The government also can choose to spend on agricultural production the considerable amount of money saved through price adjustments and cuts in subsidies, which will notably expand the supply of agricultural products. B) No other nation in the world

does what we are doing now: even before our industrialization has taken off, we are already spending huge sums of money to subsidize the consumption of agricultural products, that at a time when per capita income is climbing faster than ever before. No doubt this anti-industrialization policy is irrational and must be overhauled. Our choice would provide the catalyst for such overhaul. C) Moving funds from the consumption sector to the production sector of agriculture means that agricultural development does not have to compete with industrialization for funds. That way industrialization would not be held back by an imbalance in the supply and demand of agricultural products. Nor will industrial growth be slowed down. On the contrary, industry will be better able to absorb surplus agricultural workers, ameliorating the problem of unemployment in agriculture. D) Given the consumers' current and future income levels, they should be fully able economically to cope with the adjustment of agricultural prices at the consumption end as well as cuts in government subsidies. Thus we are fully prepared for the shift of funds from the consumption of agricultural products to their production.

It is clear that our choice is somewhat similar to the third road of agricultural development described above. We too propose that in the next 10 years traditional agriculture be modernized ahead of time and that capital replace land, to bring about the intensive management of land and increase its productivity. The difference is that our choice organically integrates agricultural development with industrial development and the transfer of surplus agricultural workers, after fully considering society's future demand for agricultural products.

II. Agricultural Development: Urgent Problems and Solutions

In the next decade if we are to eliminate or ameliorate the problems mentioned above and be able to develop agriculture following the course proposed in this report, we need to do a good job in the following areas:

A) Do our utmost to limit consumption of agricultural products, thereby lowering demand for agriculture as the population expands and incomes rise by taking a number of effective coordinated reform measures. Right now the consumption pattern of some Chinese citizens, particularly urban residents, is highly anomalous (highly abnormal). To begin with, their range of commodity consumption is very restricted, with much of existing and new purchasing power going to food, clothing, and daily necessities. The lopsided consumption pattern is strikingly demonstrated by the fact that nonfood consumption, particularly consumption of services subsidized by the state—such as housing, health care, transportation, posts and telecommunications, water, and electricity—accounts for a tiny share of all consumption. If the above-mentioned areas of consumption continue to be massively subsidized by the state over the next 10 years, household spending in them will remain at a low level—and the pressure generated by a huge demand for agricultural products will not abate. Moreover, low-priced

procurement by the state and its subsidy system have channeled more purchasing power into consumption of agricultural products than normal, intensifying the demand for such products. Given the income growth trend in the years ahead, if China fails to fundamentally change the existing low-priced state-monopolized procurement system and the corresponding government subsidy system, excessive food consumption will remain unchecked. The only way to limit the consumption of agricultural products is comprehensive, coordinated, and in-depth reform. These are the ideas of reform:

1. Accelerate the commercialization of housing, turning urban housing into a commodity during the 1990's.

2. Raise fees and prices—as appropriate—in such areas as health care, transportation, communications, and civilian energy utilization so that public consumption here accounts for a larger share of all consumption.

3. Reform the existing, low-priced, state-monopolized procurement system as it applies to major agricultural byproducts so that over time such products will be sold on the market. a) Abolish the low-priced supply system for a string of food items other than grain so as to reduce the number of agricultural byproducts sold at low prices. This report proposes that items now being supplied to urban residents at low prices, such as pork, eggs, and cooking oils, all be bought and sold on the market within three to five years. Let market prices regulate the supply and demand of these food items. b) Reform the low-priced, state-monopolized grain procurement system gradually. Instead of being essentially regulated by planning, grain sales should become more market regulated. The ultimate goal is to achieve the full market regulation of grain sales. It is proposed that the state undertake three major reforms in the years ahead. First, totally abolish the low-priced grain supply system—with the exception of rationed grain—and deregulate prices in the next two years. For example, the food-processing, wine-making and feed industries should all be required to obtain grain at market prices in the future. Second, adjust the amount of rationed grain made available. Decrease the amount of grain supplied at low prices. Specifically the amount supplied to urban residents should be cut by one-third in the next two years. The amount reduced can then be sold on the market at market prices. Third, even after its amount is reduced, even low-priced rationed grain should be reformed as appropriate. To begin with, gradually increase the selling prices by aligning them with procurement prices. The next step is to completely deregulate the selling prices of rationed grain at the right moment. One thing needs to be emphasized here, though. Since China probably will face a prolonged shortage of agricultural products, we believe that in the next 10 years the government must guarantee grain availability for urban residents without guaranteeing the prices, irrespective of the extent to which sales of agricultural products have become part of the market. c) Subsidies for agricultural byproducts must also be reformed as appropriate. Specifically, as more agricultural byproducts are sold on the market, the state

should begin abolishing the subsidies intended to close the gap between the procurement and selling prices on agricultural byproducts whose prices have been deregulated, as well as abolishing subsidies that offset operating losses. Next, the state should adjust and scientifically trim direct price subsidies to members of the public. The current policy is to subsidize everybody across the board. This policy should be replaced by one that will offer only some citizens limited price subsidies. The basic subsidy principle should be that even when the prices of agricultural byproducts are rising, the government should pay no subsidies if people's cash incomes are rising faster than or as fast as food prices. If the public's food consumption is obviously excessive, the government should offer no subsidies or should reduce subsidies even if the growth in cash incomes is slower than the growth in food spending. Another approach is based on the citizens' income levels. In the future, the government will in principle pay no subsidies to households above the middle-income level, but will pay a reasonable amount of subsidies to low-income households. If the above-mentioned reform measures are implemented, the treasury will have to pay significantly less money in the form of consumption subsidies for agricultural byproducts.

4. Impose a special consumption tax on major agricultural products to rein in the galloping demand for agricultural products in short supply. Besides deregulating selling prices, a government that means to effectively control the pace at which people change their diet and regulate the supply and demand of agricultural products in short supply should also make the most of the tax policy as a means of regulating the demand for agricultural products. It is the opinion of this report that, wherever appropriate, the government should impose a special consumption tax on some agricultural products—such as grain and animal products—which may be in short supply for a prolonged period. In view of the existing and projected income growth and food consumption pattern of residents, we propose that a special consumption tax on agricultural products be imposed on urban residents first. Subsequently an appropriate food consumption tax may be imposed on rural residents, depending on their income situation and their dietary changes. To hold down consumption of agricultural products and avoid exerting too much pressure on agricultural products, we must take a number of essential steps to prevent the incomes of urban and rural residents from rising too rapidly as well as rigorously controlling population growth.

B. Establish an effective funding organization to raise funds in the consumption sector and then channel them smoothly into the agricultural production sector to aid agricultural development. Whether or not agricultural output will increase in the 1990's will depend largely on an increase in investment funds. The latter, in turn, is a function of the state's ability to raise and manage funds. Without slowing the pace of industrialization in the future, the only effective source of additional agricultural funds is, in our opinion, the consumption sector.

The premise here is that by reforming the way agricultural products are sold, we can surely make significant savings at the consumption and circulation ends by abolishing subsidies and at the same time collecting extra revenue. We suggest that the moneys saved from abolishing subsidies and generated from the additional revenue should be set aside as an agricultural development fund, separate from the regular government budget, to help agricultural development and boost agricultural output. To put this sum of money to use effectively and scientifically, the state may set up an agricultural development fund to manage the money and ensure it is spent in agricultural production to achieve the set objectives in accordance with the plan. Money thus channeled into agricultural production may mainly be spent in the following ways:

1. It can subsidize the construction of irrigation projects;
2. A fixed fixed percentage may be set aside to help peasants improve soil and transform low- and medium-yield farmland;
3. It can support development of bases of agricultural products, particularly commodities like grain, cotton, and oil-bearing crops;
4. It can aid the dissemination and application of appropriate technology and encourage peasants to apply agricultural technology enthusiastically;
5. It can subsidize the application of modern material inputs like chemical fertilizers, plastic film, and improved seed varieties;
6. It can help finance the prevention and management of natural disasters affecting agriculture;
7. It can support agricultural education and help peasants become better-educated.

C. Formulate an effective policy to encourage peasants to increase agricultural investment in order to boost agricultural output. Currently, and for some time to come, the main disincentive to peasants increasing their investments in agriculture is agriculture's low comparative benefit. To remove this disincentive, the following reform measures should be taken over the next 10 years:

1. Deregulate the procurement prices of the major agricultural products and let them rise to the market price level, the better to end the underpricing of agricultural products at the procurement end. The specific plan is this: Allow prices of agricultural products procured by the state under a quota or bought by the state at negotiated prices to approximate the price level on the open market in order to close the gap between planned

prices and market prices. To soften the impact of deregulation of agricultural prices on the operations of the national economy, we can phase in the drive to combine the two sets of prices. For instance, we may try to achieve price deregulation by product type, first deregulating grain procurement prices so that only one set of prices prevails on the market. Or we may deregulate in stages; we first deregulate that portion of a product procured at negotiated prices, letting its price rise to the market level, and then do likewise with the other portion purchased under an official quota at an opportune time. Furthermore, after an agricultural product's planned price is aligned with its market price, the state should work out a minimum protective price policy for agricultural products in order to safeguard peasants' interests and preserve their enthusiasm for production. This is how such a policy would work: When the market price of a product drops below its production cost, the government would buy up the product at the latter price, the difference between the market price and production cost to be made up by subsidies from the agricultural development special fund.

2. Encourage peasants to increase investment in agriculture and boost the commodity output of main crops. At some point a cash subsidy system must be introduced to spur production of major agricultural products, particularly grain, perhaps in regions with a significant percentage of commodity output. The system would work like this. For every mu that it plants with grain in accordance with the national plan and for every quantity of commodity grain it turns over to the state, a locality would be paid a specified amount of subsidy by the agricultural development special fund. However, the government should decide whether to provide production subsidies to this and other localities based on the following: a) whether the shortage of the major agricultural products is severe enough to hinder the normal development of the entire national economy; b) whether, compared to other agricultural products and to the non-agricultural sector, the major crops offer such low comparative benefits that peasants are persuaded to put their resources into producing other crops; c) whether market prices and other government measures are not enough to convince peasants to boost the production of the major agricultural products; d) the terms of international trade work against China importing these products.

3. Use the tax policy to equalize the comparative advantage of one agricultural product vis-a-vis other agricultural products and that of agriculture versus other non-agricultural sectors so as to encourage peasants to expand the output of the major crops. Our plan is this: a) The state may impose a resource surcharge on or raise the special agricultural or forestry product tax of those products that fetch higher prices and are more profitable and in ample supply so as to limit their margin of profit. The idea is to prevent an excessive flow of capital goods into the production of those products. As for the major agricultural products with a narrow margin of profit, the

state may cut or waive taxes to widen their margin of profit and stimulate the flow of capital goods into their production.

b) Looking at the rural economic structure as a whole, the government may manipulate its tax policy as appropriate to equalize the margin of profit of the various sectors and industries. It may consider levying a new regulating tax on the relatively profitable non-agricultural sector in order to trim its margin of profit and correct the excessive flow of resources into the non-agricultural sector. Also, the government may try to make agriculture more profitable by lowering agricultural taxes correspondingly to nudge the flow of capital goods toward agriculture.

D. Rebuild the agricultural technological service system to increase technological reserves and lay a solid technical foundation for future agricultural expansion. To a large extent, the effort in the next decade to overhaul the way in which agriculture develops depends on technological progress. It is therefore suggested that the state do a good job in these areas in the next few years: 1) Create, without delay, an organization for the research, development, and dissemination of agricultural technology that is compatible with the current agricultural management system. Close structural gaps so that agricultural technology can be developed and applied successfully in production. 2) Speed up the development and application of existing agricultural technology. Take effective steps to raise the utilization rate of modern agricultural technology. 3) Allocate enough financial and material resources to put together an army of core workers devoted to the research and development of new agricultural technology. We should do our best to come up with a host of leading technical products of the 1990's to support agricultural development. 4) The focus of state support for agricultural technological progress in the future should be on raising land productivity and the rate of commodity production. The state should adopt an appropriate policy to encourage and support any single item of agricultural technology or a coherent group of technology that would contribute to either raising land productivity or increasing the rate of commodity production.

E. Intensify infrastructural development in agriculture to enhance its development capability and resistance to natural disasters. Right now the most urgent task is to put the infrastructural facilities neglected in the 1980's back on a sound footing. In the opinion of this report, in the future the state should first renovate or transform in a major way agricultural infrastructural facilities that have fallen into disrepair or have become outdated. Next, based on agricultural development tasks in the 1990's and the disasters that may occur in the future, the state should put together a number of agricultural infrastructural projects in order of priority and in accordance with a plan to ensure stability in agriculture and support its development. The biggest impediment to the drive to improve the agricultural infrastructure in the next several years may well be funding shortages. This research

group proposes that besides tapping every penny in the existing fund-raising channels, the agricultural development special fund should organize fund-raising efforts in the agricultural consumption sector and use the funds thus raised to invest in building agricultural infrastructural facilities. At the same time, we may take advantage of the nation's surplus labor by using live labor to offset the fund shortage.

F. Harmonize the relations between capital-intensive and labor-intensive industries in the non-agricultural sector, and vigorously develop labor-intensive non-agricultural industries to better absorb surplus agricultural manpower and ease the employment pressure in agriculture. In addition, stem the reduction in the scale of agricultural management and pave the way for the introduction of appropriate scale management in agriculture. As we see it, we may adopt a dual industrialization strategy in the next decade, encouraging both capital-intensive industries that provide few jobs and labor-intensive ones that provide many more jobs. That way the rate at which surplus agricultural labor transfers to the non-agricultural sector will not decline, thus averting an increase in unemployment. This report suggests that in the next 10 years the state concentrate financial

resources on developing basic industries to raise the overall industrial standard. As for urban processing and manufacturing industries, the state should no longer support them financially. Instead the state should help orient them toward the market and have the market regulate them. For their part, peasants should draw upon their own financial resources to develop non-agricultural industries that are relatively labor-intensive. In other words, in the future the principal objective of rural industrialization is moving surplus agricultural labor out of agriculture. The government should provide strong support and guidance in its industrial policies. To relieve the employment pressures within agriculture, the state may consider: a) Opening the labor market in small towns where appropriate and encouraging peasants to enter towns to launch non-agricultural economic undertakings. b) Opening the employment market of labor-intensive industries in small- and medium-sized cities as appropriate. Allow peasants to enter industries and trades like light industry, textiles, garments, building materials, food processing, and environmental protection. c) Opening or expanding the inter-regional labor market, and encouraging and supporting surplus agricultural workers to circulate among regions systematically in accordance with a plan.

Analysis of Rural Crime Problem

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[Article by Wei Pingxiong (7614 1627 7160) and Yu Debin (0060 1795 2430): "An Analysis of China's Current Rural Crime Problem"]

[Excerpts] [Passage omitted]

I. The Essential Status Quo and Key Features of Rural Crime in China Over the Last Decade

An analysis of the existing statistical data shows that rural crime in China over the last decade can be divided into the following three stages of development and change: 1) From 1980 to 1983, when cases of rural crime increased steadily to a peak in 1983 of 473,000, or 77.5 percent of all criminal cases throughout China that year. 2) From 1983 to 1987, when a three-year campaign of "severe crackdown" begun in 1983 brought a clear decrease in our absolute incidence of rural crime to its low of 314,000 cases in 1984, or 61 percent of all criminal cases throughout China that year. 3) From 1988 to 1990, when rural crime increased sharply to over 1 million recorded cases by 1990, or more than three times that of 1983.

The number of major criminal cases is one of the key indicators by which a society's public order is judged. From 1982 to 1990, China's major cases of rural crime increased sharply, causing increasing damage. Statistics show that we had 42,000 major cases of rural crime in 1982, and 54,000 in 1983. While our three-year struggle of "severe crackdown" from 1983 to 1986 brought some fluctuation in our major criminal cases, it was small, and our major cases of rural crime have been increasing rapidly with no letup since 1987. The most glaring of our major cases of rural crime are acts of severe violence, such as homicide, burglary, rape, and assault. As this steady increase in our major cases of rural crime is a serious threat to our rural public order and sense of security, we are faced with the difficult task of effectively controlling it.

As our rural criminal cases have increased, our percentages of peasant crime in all categories have risen steadily. Statistics show that former peasants (including fishermen and livestock raisers) account for about 60 percent of Chinese criminals now in custody and undergoing rehabilitation. Our ratio of peasant crime cases to rural population more than doubled from 1986 to 1990. Peasant crime has increased faster than the national average in nine categories, such as burglary, smuggling, assault, racketeering, and setting off explosions, with burglary and smuggling being the most serious, at higher than the national averages by 120 percent and 91.5 percent, respectively. Moreover, peasants account for more than 80 percent of other criminal cases, such as kidnapping, drug involvement, production sabotage, and arson.

The key features of China's rural crime and public security problems in recent years are as follows:

1. Glaring Gang Crime Is Doing Great Damage to Our Rural Public Order

Prior to our "severe crackdown," China's rural areas had large numbers of all types of criminal gangs, whose activities were rampant. While political and legal organs stamped out countless criminal gangs and prosecuted hundreds of thousands of gang members during the "severe crackdown," not long after it was over many types of criminal gangs again sprang up and spread throughout our vast rural areas, becoming a great threat to our rural public order. A typical investigation by a concerned sector found that in 70 percent of the glaring township gang crimes throughout the country, arrested gang members made up 40 percent of all criminals, with gang racketeering being rampant, stopping at no evil, and severely threatening the security of the local populace in certain places. While rural criminal gangs used to be mostly temporary groupings, forming and breaking up freely and being loosely structured, they are now not only highly structured, but also tightly organized. Criminal gangs that are formed through ties of clan and family discipline commit particularly savage crimes, and are more firmly chronic throughout their commission of crimes. Rural criminal gangs are made up mostly of youths, with most of their key members being "repeat offenders who have not been rehabilitated" and the unemployed, student drifters, and school dropouts who have committed misdeeds. Such gangs often commit major or repeat crimes, and have many ways of committing crimes and evading detection and arrest. In the last two years in particular, criminal youth gang activities have become even more rampant in rural areas along roads and railways and close to cities.

Of our current rural gang crimes, most are crimes against property, with racketeering and abduction ranking second. Particular attention needs to be paid to the appearance in some rural areas of many antisocial underground reactionary organizations and mafia-type criminal organizations. While such organizations may still be few in number, their ability to harm and spread must not be underestimated. Some reactionary secret societies and so-called religious elements left over from the old society are hiding behind religious freedom to form secret associations, develop underground armed forces, and try in vain to create disturbances. In certain rural areas inhabited by minority nationalities, some criminal gangs commit all sorts of illegal activities, while recklessly stirring up minority nationality conflicts in an attempt to evade detection. [passage omitted];

2. Glaring Cases of Abduction and Sale of Women and Children Are Growing in Intensity Despite Repeated Efforts To Stamp Them Out

The abduction and sale of humans is a crime against property aimed at profit, while also being a crime against the person that encroaches on the rights of citizens. Such

crimes are most pervasive and typical in China's rural areas. While the abduction and sale of humans became a very glaring problem for a time in the early 1980's, our first campaign of "severe crackdown" clearly reduced it. But since 1985, this type of crime has grown steadily, having increased even more sharply in recent years despite repeated attempts to stamp it out. Cracking down on the crime of abducting and selling humans, and liberating the women and children who it has harmed, has now become a key job of our public security, political, and legal institutions. Most of the criminal elements engaged in the abduction and sale of women and children are peasants and unemployed city dwellers, who usually have urban-rural ties and commit transregional crimes. The abduction and sale of women and children is now more evil in nature, brutal in means, and swollen with arrogance, with some criminals even forming gangs for the abduction and sale of humans, setting up contact and marketing points at places of abduction and sale, having a specific division of labor for all links, such as abduction and reception for delivery, transfer, and sale, and practicing "coordinated" operations. Some even treat women as commodities by openly offering them for sale at a price on rural markets. Some women are repeatedly sold, raped, and ravaged to the point of extreme physical and psychological devastation. Some college and graduate coeds are also abducted and sold. Some criminals are so bent on profit, blinded by lust for gain, and unscrupled that they produce one tragedy worse than the next of younger sisters selling their older sisters, older brothers selling their younger sisters, husbands selling their wives, and children selling their mothers. Others even brazenly raid places, such as public housing, kindergartens, and hospitals, stealing and luring away infants and children to be sold. A survey of 27 townships in the three provinces of Shandong, Henan, and Anhui found that more than 2,200 women and children were abducted there and sold in recent years. From 1978 to 1988, 9,654 women and children were abducted for sale from one region. In another county, there were 705 cases of abduction and sale of humans in three years, which involved all villages. In another village, 57 of its only 143 families were involved in the abduction and sale of 80 women. [passage omitted].

3. While Rural Crime Is Becoming More Diversified, Homicide Continues To Account for a High Percentage of Cases

The more limitations on and awareness of news transmission in rural than urban areas mean that urban crime is generally more diverse in type, rapidly changing, and contemporary than rural crime (particularly in remote border rural areas). While this has essentially been China's history as to rural crime, the changes in our rural society in recent years have brought increasing urbanization to our types of rural crime, so that our rural crime now embodies almost all types of urban crime, as well as being imbued with distinct rural characteristics.

Among all types of rural crime, homicide still accounts for a high percentage of cases. We have generally always had more cases of homicide in rural than urban areas, which was closely related to rural areas being economically and culturally less developed, lower in literacy level, and having a lower quality of population than urban areas. [passage omitted] But since we began to reform and open up, our rural social conflicts have increased, so that cases of our traditional rural crime of violence of homicide have also increased year after year. For instance, survey data from the Shandong Province Public Security Department for the decade from 1980 through 1989 show that only 19.8 percent of homicides were committed in cities, while 80.2 percent were committed in rural areas. During this decade, homicide accounted for only 2.2 percent of all cases of urban crime, but 4.3 percent of all cases of rural crime. This shows that homicide accounted for more raw figures as well as percentage of all cases of crime in rural areas than in cities. A regional survey in Shandong of 200 homicides found that 73 percent occurred in villages, 15.5 percent in suburbs and towns, and only 11.6 percent in urban districts. [passage omitted];

4. The Large Numbers of People Involved in Crime in Certain Rural Areas Has a Great Impact and a Certain Flavor of a Crime Complex

Dominated by a pack mentality and criminal complex, public crime in certain rural areas in recent years has become secure in the knowledge that it has strong backing, gained increasingly in impact and radiation, and developed an increasingly severe herd complex. For instance, most peasants in the vicinity of key oilfields are governed by the ideas that "proximity to oilfields means taking advantage of them" and "nothing will be gotten if it is not taken," so that theft and looting there have become common practices that cause severe damage to state property. The Village of Nichao in Hongxi Township, Jiashan County, Zhejiang has only 54 families with 171 people and a male workforce of 46, of whom in 1990 alone 22 were subjected to investigation and affixing of criminal responsibility, with three being sentenced to death, three to life imprisonment, and seven to more than 10 years in jail, so that Nichao can truly be called a "village that specializes in larceny." Taking another example, a certain village along the road from Nanyang to Zhengzhou has a small group of only a little over 240 people, of whom 124, or 51.6 percent, have taken part in stripping motor vehicles and stealing road transportation materials. In 1990, 51 cases were uncovered in that village of theft of goods, with one being an exceptionally big one, 22 being major ones, and the stolen materials being worth 110,000 yuan. The three Henan counties of Xiangcheng, Shangshui, and Shangcai are infamous throughout China for their peasant manufacture of inferior, counterfeit commodities, with the two towns in Xiangcheng County of Jiangqiao and Dawei being even more infamous for such "dirty tricks." Counterfeit commodities and fake trademarks there are in full supply, with markets flooded with all types of counterfeit certifications, letters of introduction, ID cards, and tax

receipts, including a wide variety for all levels and industries from central- to village-run enterprises. These peasants set up stalls and brazenly hawk their wares, with some even having counterfeit official seals, which they will affix on the spot at the buyer's demand. In their words, "the State Council and the provincial government are all set up in Jiangqiao." Even more unspeakable is that counterfeit RMB is openly bought and sold there. Lawless elements congregate around Jiangqiao, swaggering through the streets in broad daylight completely unrestrained. These people are all peasants, even including some village-level grassroots cadres. While the Xiangcheng County Public Security Bureau has mustered its forces for repeated crackdowns since 1986, they have been largely ineffective for various reasons. These lawless peasants say that "while you may get caught nine out of 10 times, you only have to pay once;"

5. Crimes Committed in Large Public Brawls in Some Rural Areas Severely Affect Rural Stability and Normal Production Livelihood Order

As rural reform measures have been implemented, all types of conflicts, disputes, and clashes of interests have steadily increased in rural areas, with cases arising from them, such as homicides, assaults, sabotage, and explosions, having become more common rural crimes. Public brawls arise now and then particularly over things, such as land boundaries and water and power rights. Clashes and brawls of all scales are particularly hard to control in rural areas that are along backward, remote borders or have a strong patriarchal clan system. For instance, incomplete statistics for the 12 years after 1978 show that Hunan Province experienced over 1,000 clan brawls involving more than 100 people each, which resulted in over 1,200 deaths, almost 5,000 injuries, and direct economic losses of more than 60 million yuan. In each case, not only did the people involved suffer severe losses, but public security organs had great difficulty controlling things, even to the point of being surrounded and beaten by half-crazed peasants. From 13 to 18 February 1990, Cangshan Prefecture in Tiantai County, Zhejiang experienced a mass clan brawl touched off by a dispute over mountain forest and water rights, which developed into a serious criminal incident involving beating, smashing, looting, arson, and homicide. This brawl resulted in three deaths, 72 injuries, 31 burned down houses, 431 destroyed sets of furniture, the wanton cutting down of 12,000 fruit trees, and direct economic losses of over 300,000 yuan. It must be particularly noted that those involved in such incidents often include quite a few party and league members or grassroots cadres, who usually play key roles as brawl commanders. Their involvement is a large factor in the public recklessness and unscrupulousness. In the midst of such intense and contagious mutual struggle, wisdom is often replaced by madness, allowing incidents to develop to the point where they are very hard to even imagine let alone control. After the abovementioned "Cangshan Incident," some grassroots party branches even publicly proposed that all participants in the brawl should be

provided 15-yuan-a-day subsidies while in jail, and 10-yuan-a-day subsidies during their trials. [passage omitted];

6. Socially Repulsive Phenomena Are Widespread, Feudal Superstitions Are Doing Extensive Damage, and the Public Mood Is Going From Bad to Worse

The destruction of our traditional rural collective advantages by the rural responsibility system of linking remuneration to output, as well as the weakening of our indoctrination function and the decline in the development of our spiritual civilization, have brought a resurgence in recent years of certain corrupt rural customs and socially repulsive phenomena, which are spreading rapidly. Not only are our rural areas again being swamped with the traditional wave of gambling, but our old society's phenomenon of taking concubines and child brides is also reappearing, and support for prostitution is even growing gradually. "Roadside stalls" are appearing along rural roads, which are being found to contain increasing numbers of prostitutes. Even more alarming is the phenomenon in some rural areas of peasants growing, selling, and using opium. Statistics on drug crime in Yunnan Province in recent years show that peasants account for most of it, or about two-thirds. Meanwhile, rural feudal superstitions are becoming steadily more open, with sorcerers and sorceresses taking advantage of superstitious beliefs to swindle people out of their money through superstitious activities, such as repairing ancestral graves, adding sequels to clan genealogies, building ancestral temples, and erecting memorial arches, having spread to all rural areas. Certain superstitious sects and secret societies are hiding behind religious beliefs about faithhealing and exorcism to gain more followers. This includes certain reactionary elements that are reviving superstitious sects and secret societies to mislead people into starting and spreading rumors attacking the party and government. Others are even exploiting such sects and societies to swindle money and seduce women. Statistics show that the incidence of such crimes in Henan Province was up 51 percent from 1988 to 1989. More serious cases are occurring in provinces, such as Hunan, Jilin, and Guangxi;

7. Rural Crime Is Being Committed by Younger People Motivated by a Desire for Luxuries

In the five years up to 1985, teenage peasants accounted for 39.5 percent, 42.1 percent, 45.6 percent, 47.8 percent, and 50.4 percent, respectively, of all teenage crime, since which rural teenage crime has increased year after year by increasingly younger people. Peasants under 35 years of age now account for most rural crime, with those in the 14-25 age category constituting the majority, most of whom are student drifters and school dropouts.

Uneven economic development and "the example" of those who have gotten wealthy first are the catalysts in the abnormal expansion of peasants' individual need

structures and psychological makeups. Once most peasants [passage omitted] have resolved their basic "food and clothing" problems, they quite naturally go on to making higher material demands. The changes in major rural crime motivations in recent years reflect in one sense changes in the peasant criminal need structure, with crimes against property in particular being more evident. Many rural criminals are now being motivated much less by the former "theft of grain when the wok is empty, stealing of boards to build houses when millet stalks are in short supply, and pilfering of cloth when there is a lack of shirts and hats," and more by love of ease, hate for work, and unbridled chasing after unrealistic material comforts. As their worldview is that "life in this world consists of the two words of food and clothing," when their abnormal material lusts are not satisfied, they unscrupulously commit all sorts of crimes against property which, once acquired, they squander wantonly. In addition, gangsters and sex offenders are steadily becoming more motivated by hedonism;

8. The Glaring Increase in Cases of Envy of Wealth and Ability, Violations of "the Two Types of Economies in One System," and "the Heartless Pursuit of Riches," Is Severely Dampening the Initiative of Some Peasants To Get Wealthy

Driven by a narrow and backward small-scale-peasant-economy mindset, some rural people are envious of others' wealth and ability, get furious at the sight of others' riches, and often compensate psychologically by sabotaging or encroaching on others' interests. These people often have no conflict of interest with their victims, sometimes not even knowing them very well, so that their criminal motivation is very simply to vent their envy of the wealthy. For instance, some people watch others getting wealthy through contracting fish ponds and orchards or raising poultry and bees, so try by hook or by crook to take certain abnormally destructive actions to block these sources of wealth, such as damaging forests and fields, for psychological satisfaction. Such destructive actions against wealthy rural grassroots cadres in particular carry even more of a sense of taking revenge. Others do not even hesitate to employ mean tricks, such as kidnapping and arson, to terrify and blackmail the rich. Such hate crimes against property or persons severely threaten rural public order and agricultural production, create economic losses and psychological shocks for victims that are hard to remedy, and severely dampen the contract enthusiasm and production initiative of peasants who would get rich.

We should also take note here of the current widespread existence in our rural society of "the heartless pursuit of riches." While such actions may not account for a large percentage of the peasants who get rich, their adverse impact on our rural society certainly cannot be ignored. Some peasants of very poor character in the first place get rich and then have more leisure time to seek more means of pleasure. Their wealth leaves them arrogant and with no respect for the law, so that there is nothing

that they will not do, including gambling, visiting prostitutes, taking concubines, bigamy, evading taxes, and having above-quota children. Money in their eyes is the all-powerful god. Such twisted examples have a great impact on other peasants, particularly young ones, so severely pollute our rural social atmosphere. [passage omitted]

II. The Major Causes of and Related Factors in Our Glaring Rural Crime and Public Security Problems

Our glaring rural public security problem is caused essentially by the particular historical stage of our rural areas and its essential conflicts. China is in the initial stage of socialism, in which everything in Chinese society is undergoing a process of constant change and reintegration.

The implementation of our rural production responsibility system and the growth of our commodity economy have given our peasants production operating decision-making authority, and turned them into independent commodity producers. While this has brought amazing changes to all parts of our rural society, it necessarily has to pass through a stage of labor pains, just as in the birth of all new things. This is determined by the particular features of China's rural society. As our rural society is a whole made up of diverse elements that do not readily harmonize and conform to new conditions, it retains more traditional or backward production and cultural traces. As our rural society operated for thousands of years on a narrow, single-track natural economy, Chinese peasants have evolved enormous psychological momentum suited to it, so that a commodity economy is to them a strange and novel idea to which they would like to adapt but do not know how. As sudden reform changes have put all old customs and new strange and conflicting ideas into a process of exchange and collision, they have naturally created a temporary imbalance in our peasant mentality. Thus, while our rural society's old inherent conflicts and problems have not yet been thoroughly resolved, new ones of increasing complexity are emerging daily, which leaves us with a trend that is contrary to the ordinary posture of contemporary social development. [passage omitted] Anyone who still today longs for our old rural society song and dance of "no one picking up and pocketing anything lost along the road, and no need to lock doors at night," is certainly metaphysically naive.

While the increasing complexity of our rural public order and the glaring crime problem throughout China have diverse causes, their factors can be limited mostly to those in the following areas:

—Our rural grassroots political power is not well-established. The major factor in this is that our basic work at the grassroots level has weakened. China's rural grassroots political power is our key means of rural social control. It is brought into play through our administrative system of setting up organizations and appointing cadres according to regional divisions,

which manage and control all aspects of our rural society, such as political, economic, and cultural. As our people's communes that integrated government administration with economic management have been dismantled, our rural grassroots political power that exercised social control through the powerful economic means of collective economic organizations (production teams) no longer exists. The lack of collective economic might behind our grassroots political organizations has sharply reduced their ability to manage and control our peasants, who have greater decisionmaking power. The lack of cohesiveness of our grassroots party organs in particular is increasingly disintegrating their power over our peasants. Surveys by the departments concerned show that only 20 percent of our current rural grassroots political organizations throughout China are sound and exercise their functions well, while 40 percent each are either weak and lacking in morale, or only mediocre in the performance of their duties. Since the contract management responsibility system was put into effect in our rural areas, most villages have divided up fields by families, so that many leading cadres in grassroots organs are more concerned about their own fields and affairs than about collective matters. A few grassroots political leaders in particular are severely corrupt, exploiting their power for wealth, working with simple and crude methods, and being poor at resolving conflicts, which creates a great lack of public confidence and tense public-cadre relations. Public notices have appeared in some places headed "warning," and saying that "it is necessary to be on guard against fire, theft, and cadres who are concerned only about eating, drinking, and their own safety." Peasant revenge against cadres occurs repeatedly, with some village cadres being murdered and robbed with public approval. Even more alarming is that our grassroots organs in some places are now under the control of clan forces who have even usurped their leadership authority. This is most serious in remote mountain villages. [passage omitted];

—Our uneven rural economic development and growing gap between rich and poor are key factors in our worsening rural public order. To be objective about it, the population composition of Chinese society over that past 4 decades or so has actually been a dual one of 80 percent rural and 20 percent urban, in which our urban population has a contemporary or almost contemporary lifestyle, while most of our peasant population remains poor. While it cannot be denied that reform has certainly brought great changes to most of our rural areas, so that most peasants' economic conditions have improved, we still have 60-70 million peasants with incomes of less than 200 yuan a year. Uneven economic growth by area often causes large gaps among rural areas, with essentially a clearly widening gap from coastal to interior to poverty-stricken border regions, and even gaps among prefectures and villages within regions due to all sorts of factors. This is precisely why our interregional gap

between rich and poor peasants is widening steadily, with differing wealthmaking capabilities and conditions creating an even larger gap between rich and poor peasant families. While our incorrect propaganda of some years ago led to the mistaken beliefs that "wealthy peasants were spouting up like oilwells," "10,000-yuan households were everywhere," and our urban-rural gap had been eliminated, this is actually far from the case. Such peasant "upstarts" are actually very few, with most peasants still living off the land with little hope of becoming rich. Some peasants have a growing sense of discontent over their relative exploitation, with the example of those who have become rich first in particular having an even greater impact on their feeling that things are unfair. A private ownership mentality of "money is all, and profit before everything" is prevalent among peasants, with a psychological mindset and social fashion of "glory to those who build up family fortunes, and the devil may care about those who suffer" having evolved. Some peasants feel that they are heroes if they get rich no matter what the means, so instead of casting off their poverty through reasonable means, such as honest hard work, they grow mad at the sight of wealth and engage in the "heartless pursuit of riches," looking for "shortcuts" and achieving their goals through illegal and even criminal means. The increase in recent years in our rural society of cases, such as killing for profit, extortion and blackmail, revenge against cadres, production sabotage, larceny, and looting, as well as in peasants entering cities and committing "city-beseiged" type crimes, are all related to this income gap and ruthless pursuit of wealth.

—Our rural educational decline and lagging spiritual civilization development are adding to peasant misunderstandings. Peasants make up the majority of China's great army of about 250 million illiterates. While rural economic growth creates the conditions for rural educational improvement, our rural education remains in a state of severe decline. Influenced by "the argument that study is a waste of time," our rural school dropout and delinquency rates are increasing year after year, with a very large percentage of rural grade and high school students dropping out to work as peasants or peddlers. While China's population as a whole receives an average of less than five years of education, this figure is even lower for our rural population. This poor quality of our rural population not only shows up in level of literacy, but also is directly linked to crime. All rural crimes, such as bigamy, abduction and sale of human beings, reckless felling of forests, destruction of resources, environmental pollution, sabotage of water conservancy works on farmland, theft and damage to power lines used by peasants, and exploitation of feudal superstitions to swindle, are related to peasant ignorance. Poor population quality is also a key factor in crimes, such as homicide, assault, and rape. [passage omitted]

While our decade or so of reform has improved our rural economy and peasant living standards, our severe lag in

developing our spiritual civilization has certainly not brought a corresponding improvement in our rural social climate and peasant morality, with some generalizing that our peasants now "have full grain sacks and money belts but empty heads." Some peasants believe that the socialist road and collectivist ideas are outdated, so that the most realistic thing is to devote oneself to making money and getting rich. They focus their efforts on making money, which they spend on building houses and temples, worshipping ancestors and building graves, and holding lavish weddings and funerals, which allows rural feudal superstitions to resurface, religious activities to spread, and gambling to become rampant. Neglect of education and spiritual civilization development has brought certain peasants increasing ideological confusion, ethical distortion, mental depression, and conceptual misunderstanding. In addition, the sparsity of rural sparetime activities along with more peasant leisure time have created a spiritual void for some, who then have to seek spiritual sustenance. [passage omitted]

—The sharp upswing in the urbanization of our rural areas and the "poor assimilation" of our rural surplus workforce are also factors affecting our rural public order that cannot be ignored. Our rural economic reforms and our steady development of a commodity economy have brought the two direct results of a widespread rise of small cities and towns and surplus workforce mobility, which would have been impossible under our people's commune system. Statistics show that China's cities increased 180 percent in number, 460 percent in area, and 330 percent in population from 1978 to 1988 alone. Meanwhile, our small cities and towns grew at an even faster rate. Our development of rural township enterprises and movement to small cities and towns have brought us rural economic prosperity and social advances, which have speeded up our rural population mobility and sharply increased our surplus rural workforce. Our Fourth Census found that while our floating population made up only 2.6 percent of the whole, it amounted to over 30 million in absolute numbers, most of which was rural. While we now have a rural surplus workforce of 100 million, all of whom need jobs, our originally small and steadily decreasing cultivated land area is unable to meet their work and income needs, which is forcing them to faraway cities and towns in search of nonagricultural employment opportunities. Moreover, once peasants are "freed" from the land and catch a glimpse of "the outside world," their emphasis shifts sharply from agriculture to business, making it very hard to get them back to the hard work of land cultivation. (Or, how do you get them back to the farm once they've seen the big city?) In addition to the large amounts of rural surplus labor that flows into large and mid-size cities, the rest become concentrated mostly in small cities and towns. As small cities and towns have a limited capacity to sustain population, which the large influx of peasants further exacerbates, as well as making their social control job harder, their public security loopholes and hidden dangers increase,

with peasant crime becoming more conspicuous. A survey by a *China Rural Crime* taskforce finds that market towns that make up less than 30 percent of our rural population account for 70-80 percent of all rural crime. A survey in Jilin Province found that town crime accounted for 69.7 percent of all rural crime from 1988 to 1990, for a town crime rate of 18.3 percent, while the village crime rate was only about 6 percent. Sociological studies show that while Chinese cities have grown quickly in recent years, there has still been no basic change in the situation of industrialization leading and urbanization lagging, meaning that the growth of cities and towns is going to remain a general trend for some time to come. Meanwhile, economists predict that our rural workforce will increase at a rate of 8.72 million a year for the rest of the century, accumulating to almost 100 million additional rural workers. In other words, while 200 million rural workers will need to find new jobs in this century, projections are that our rural areas will be able to provide only about 100 million additional jobs by the year 2000, which means that it is going to be impossible to solve our rural surplus workforce transition problem in this century. [passage omitted]

—The defects in our rural public order defense and control systems and our increased public order "blind spots" make us far from being able to adapt to rapid rural economic and social developments. Our rural public order is so complex that, in addition to the abovementioned factors, the defects in our rural public order defense system must not be overlooked either. It is an objective reality that our peasants are becoming increasingly less dependent on the land, with leaving it to become peddlers, laborers, or farmworkers in other places having become quite prevalent. But while factors, such as our greater rural workforce mobility and the beginnings of a rural urbanization pattern, are certainly causing problems for our rural public order management and social control, our current rural social control forces are not suited to these new developments, with a series of problems, such as severely undermanned police and other public order forces, outdated equipment, and a lack of resources, also causing difficulties in solving our rural public order problem. As most rural police stations have only three or four personnel each, who are burdened with a great many trivial police affairs, such as dogcatching, demolition and removal, pressing for grain harvest tax payments, and family planning, it is very hard for our public security organs to bring their major function of cracking down on crime into full play. Some local governments even mistakenly regard township police stations as their own tools or backup forces for "escort services" or "making a show of strength," with some localities even cutting off power and food supplies to police stations that refuse to take part in such nonpolice activities. In addition to our undermanned police forces in rural areas, our rural courts, security organs, and civil defense forces are not up to the demands of the current struggle,

often being in a passive position of having no one to investigate and prosecute cases, mediate disputes, or promptly try arrested suspects. [passage omitted]

Problems of Rural Secondary Education

93CM0080A Beijing RENMIN JIAOYU [PEOPLE'S EDUCATION] in Chinese 4 Oct 92 pp 17-18

[Article by Chen Guangji (7115 1684 0679), student in the Foreign Languages Department, Chuzhou Junior Teachers College, Anhui Province: "Some Problems I See in Rural Middle School Education"]

[Excerpts] *Editor's note: What is published here is an investigative report by a junior teachers college student during his fieldwork. He reports some problems in rural middle school education at the present time, problems that exist to different degrees in many localities throughout China.*

I am a junior teachers college student. In March and April of this year, together with my fellow students on a fieldwork team, I did education fieldwork at a rural middle school far from Chuzhou City. While conscientiously completing our fieldwork tasks, we used our after-school time to investigate several nearby schools, where we interviewed some teachers, school leaders, and parents of students. At the same time, in combination with the situation investigated in the previous vacation period, we discovered that, at present, in the rural areas there exist some problems in elementary and middle school education, especially in middle school education, roughly in the following aspects:

1. There is serious subject bias

Since the standard examination system for junior middle school graduation and promotion to a school of a higher grade was put into effect, many rural junior middle schools have revised and changed their curricula. Some schools have straightforwardly eliminated from their curriculum schedule geography, history, animal studies, plant studies, physiology and hygiene—subjects for which examinations are optional—and have replaced them with Chinese language, mathematics, and English language—major subjects for which examinations must be taken. Although the curriculum schedule of the middle school we did our fieldwork on retained the subjects of history, geography, and physiology, they existed in name only. This is because the curriculum of these subjects is entirely taught in concurrent fashion by the main subject teachers, and the school does not make any demands on the content of these subjects, so almost all class time is devoted to the main subjects. Even if a student attends a class occasionally, the teacher will tell him: Provided you do not talk, you can do anything—sleep, read novels—I will not object! In some schools political classes cannot be given in the first and second years because the schools' leaders and teachers have a clear psychology: attending first- and second-year political classes, whether middle school examinations are given on them or not, is not as good as more classes in

the Chinese language, English language, and mathematics, on which examinations must be given!

The reason is that the control of examinations is not strict and has become a mere formality. No matter whether he learns well or not, whether he learns or not, every student can pass the examination with high marks. I once witnessed a history examination at the second year level in a middle school. The bell rang. Holding the examination papers, the teacher entered the classroom and distributed them, one per student. Most of the students just wrote their names on the papers and then waited to hand them in. A small number of students mischievously wrote and drew at random on their papers. After about 12 minutes, the teacher ordered: "Hand in your examination papers!" The students immediately vied with each other to be the first to hand the paper in. Afterward, a look at the students' history examination results showed that they all scored 90 marks or higher. What was their secret?

What is the result of doing things in this way? I once used class meeting time to prepare to tell the students a story about Comrade Liu Shaoqi's strict demand on his children that they work hard and be thrifty and frugal. I first asked: "Fellow students, do you know who Liu Shaoqi was?" Struck dumb for a while, they replied: "We do not know!" Because on normal days they do not learn history and geography, many junior middle school students do not know who Sun Zhongshan, Li Dazhao, and Liu Shaoqi were; do not know how long the Chang Jiang [river] is and how large China's territory is.... [passage omitted]

In another aspect, because history, geography, and physiology are squeezed out of the curriculum, and also because the rural middle schools do not attach importance to music, physical education, and the fine arts (limited by equipment conditions), the junior middle school curriculum is even more dull. Some students said: "Sometimes in one afternoon we attend four mathematics classes in succession, making our heads ache." [passage omitted]

2. There is more and more homework

At the first year level of a middle school I investigated, the homework burden on the students is very heavy. For only one course in the English language, every student had five guidance and review books, including *Classroom Training in Junior Middle School English Language*, *English Language in the Middle School*, and *English Language Study*. A second year student said: "Once the school for two successive Sundays had a two-day break, but the teacher demanded that every student complete nine examination papers, and also recite a lesson from memory and write a composition."

In the curriculum schedule, except for seven classes, every other day has eight classes. About three-fourths of the rural middle schools have only one Sunday a month as a rest day.

At the same time, only 70 percent of the rural middle schools demand that students board at school from the first year on. The students' dormitories and dining rooms, and their hygienic conditions, are cause for worry; the meals cannot be said to be "nutritious." [passage omitted]

There is no need to go into details that this is only pressure from the school side and pressure from the family and society.

What will be the result if the State Education Commission were to make repeated injunctions that the excessively heavy burden of homework on elementary and middle school students be lightened? It could be said that homework in some subjects would be "reduced," e.g., in history, geography, and physiology, but the homework in Chinese language, mathematics, and other main subjects would be greatly increased.

"Teacher, give us a breathing spell!" This is what the students say in their hearts.

3. Attention is paid to the minority, and the majority is ignored

First, listen to what several teachers have to say.

When analyzing competitive examination questions, a physics teacher told all students in his class: "I am now teaching several subjects of some difficulty. The several students with good grades are to listen conscientiously, and the other students may listen or not."

After an English language examination, a certain class teacher asked the English language teacher: "How did Liu X and Yu XX of our class do in the examination?" "Not bad, both scored over 90," the English language teacher replied. "That is good, I am satisfied if those do well on examinations," the class teacher responded, as if relieved of a heavy burden.

In the course of having heart-to-heart talks with several class teachers, I heard this "theory" propounded: If every class in a year has at most six or seven examinations, we will be able to single out several "top students" who do well on the examinations; singling out the rest of the students is singling out in vain and is not as good as not singling them out at all. This is "teaching students in line with their aptitude."

The second year class of a certain school makes fairly good grades. In an English language examination, with a total score of 100, the results were distributed as follows: out of a total of 46 students in the class, seven passed, and of them two scored over 90; and 39 did not pass, and of them 22 scored less than 36.

This serious polarization is not peculiar to one school, and is also not limited to any one subject. It is now a universal phenomenon in rural junior middle schools. The cause is that in all cases only one eye is able to see educational work being done. It tilts the teaching center

of gravity toward the minority of "top students" and ignores the training of the majority of students.

Certain teachers regard with special respect students who get good marks, and they are indifferent to those who get poor marks. This way of doing things not only causes a polarization in study marks, but also has a very large adverse psychological effect on the students. On the one hand, it cultivates in the "top students" a conceited psychology of being a cut above other people, and they cannot see other people and also cannot see their own shortcomings. Sometimes, even if they make mistakes, the school's leaders and teachers are partial to students who get excellent marks. In the other aspect, the great majority of students, who get fairly poor or very poor marks, cannot get the teacher's full attention, producing in them an inferiority complex and a detestation and fear of learning, and causing in them an inverse psychology in which they resent the teacher and oppose the "top students." [passage omitted]

4. Teachers ignore their own role as "paragons of virtue and learning"

The ancients said: "A teacher is an example for the people." The middle school is the Golden Stage of life, is the important stage in which people study culture and knowledge and establish the correct outlook on life. Teenagers at this stage have a very strong imitative nature and plasticity; they seek knowledge and crave strength, and they are interested in everything. For them to mature healthily, there needs to be good guidance. A teacher occupies an important position in the student's mind, and every word and action by the teacher plays the role of teaching the student by personal example as well as by verbal instruction. [passage omitted] There are teachers who simply do not pay attention to this role, however. When they come to class they are sloppily dressed, and some go so far as to drunkenly stagger up to the rostrum. [passage omitted]

There are two reasons for the widespread existence of the abovementioned phenomena: one reason is that the guiding ideology in education is the one-sided pursuit of the rate of promotion to a school of a higher grade; and the second reason is the low quality of the teachers.

First, the great number of rural elementary and middle schools have been influenced by the one-sided pursuit of the rate of promotion to a school of a higher grade, and they want to raise the examination marks and this rate in order to win society's recognition, the leaders' commendation, and the trust of the students' parents. Although the central authorities have time and again stressed that ideological education should be taken seriously and that moral education should be put in an important position, because up to now there is no perfected set of rules and regulations to supervise the work in this respect, it is now still in vogue to only take care of the minority of top students and ignore the majority of students, and to only work for marks and for the rate of promotion to a school of a higher grade and ignore moral education.

The actual situation at present in China's education is that only a small part of rural middle school students can be promoted to a school of a higher grade, and the greater part of the students face the prospect of going into the reality of society. The task of China's secondary school education is: not only to send qualified new students to a school of a higher grade, but, at the same time, to train for society a large, fine labor reserve force. Someone once evaluated graduates in this way: those who have political integrity but no ability are substandard products, those who have ability but no political integrity are dangerous products, and those who both political integrity and ability are qualified products. The importance of moral education cannot be ignored. While preparing the students to go to a school of a higher grade, we must make good preparations for other students to go into society, cultivating in them a good moral character and laying a foundation for their continued development after they leave school, so that every student gets a tempering in moral, intellectual, physical, aesthetic, and

labor qualities, and becomes a qualified, excellent builder of socialism. [passage omitted]

Next, the quality of teachers is fairly low. The rural middle school teacher ranks are far from meeting the desire for specialization and regularization (e.g., of the 24 English language teachers in four rural middle schools in a certain district, not one graduated in the English language speciality). Here the quality I am speaking about is not a question of the level of professional knowledge; it means that the great majority of teachers have not had a good education in the standards of teaching virtue, do not understand the important significance of "being worthy of the name of teacher," only understand how to teach from books and do not understand how to truly educate people, and do not understand that their own words and deeds, their own attitude or behavior and conduct in society, are regarded by their students as examples to be copied. [passage omitted]

NORTHWEST REGION

Benefits of Linking Up With Coastal Provinces

93CM0101A Urumqi XINJIANG RIBAO in Chinese
8 Oct 92 p 1

[Article by Ma Chiye (7456 7459 6851), Shao Boheng (6730 2672 1854), and Yuan Jinliang (5913 6930 5328): "What We Have Learned By Linking Up With the Coastal Provinces (III)"]

[Text] We recently visited a number of vibrant enterprises which have a great deal of market competitiveness. We discovered that the great majority of them have been able to develop and grow because in the last few years they have availed themselves of every advantage offered by Xinjiang, and have made great efforts to "link up with the coast and export to the West."

This once again shows the people, as well as enterprises facing unprecedented threats to their existence, that the flame of hope kindled by the policy of "linking up with the coast and exporting to the West" still burns.

Let us take the example of Miquan County. This rural county, which had once relied totally on agriculture, moved decisively in 1985 to take advantage of the superior geographical position of neighboring Urumqi as well as a series of policies from the Autonomous Region government intended to speed up reform. It implemented the policy of "linking up with the coast and exporting to the West" across the board, and within a few short years, a number of county-run enterprises and township enterprises had sprouted up like mushrooms after a spring rain. The good news is that these enterprises have weathered several market fluctuations and continue to show great hardiness. According to Wang Shunxiang [2769 7311 4382], director of the county's Office of Economic and Technological Cooperation, from 1985 to 1991, over 130 cooperative ventures were initiated in Miquan County, 25 million yuan and more than 500 people were brought in, a cumulative total of over 60 million yuan in new productive capacity had been brought on line, 11.8 million yuan in new profit taxes had been handed over to the state, and over 300 new products had been developed, of which 20 filled a gap in Xinjiang and 10 were rated superior quality products by the Autonomous Region Government. Not without some pride, Wang Shunxiang stated to us that without the policy of "linking up with the coast and exporting to the West," Miquan would not be the success it is today.

Let us take another example: the Bu'erjin Woolen Mill, in the Altai Region. Although located in a remote mountainous area and short of personnel, this mill achieved an organic combination of its natural resource advantages with economic and technological assistance. It used various means to bring in personnel, offering high salaries to hire well-known and highly skilled personnel from Shanghai to serve as deputy factory managers and workshop leaders. In the past few years, they have developed

over 200 new products, five of which have received the Autonomous Region Award for Excellence and one of which has received a Ministry Award for Excellence. Even with the wool spinning industry in a slump, their products have sold well, with demand outstripping supply. In 1991, output value reached 9.2 million yuan, and total profit taxes came to 1.01 million yuan. This woolen mill has become a star among Xinjiang's township enterprises.

Various signs indicate that the policy of "linking up with the coast and exporting to the West" is the way to go for all of Xinjiang's township enterprises.

Of course, just talking about the fantastic successes of "linking up with the coast and exporting to the West" alone will not reveal the entire content of the policy, just as we want to know not only which fruits are good to eat, but also how to pick them.

The deepest impression we got during our visits was the fact that some enterprises had the courage to break from their own conventions and boldly do away with all outmoded habits and rigid concepts that ran counter to the requirements of a commodity economy, thus enabling themselves to shine under the policy of "linking up with the coast and exporting to the West."

Prior to 1984, the Xinjiang Thermos Bottle Industry Corporation had suffered losses year after year due to backward technology, poor product selection, and poor quality. Wages had fallen 20 percent, and the enterprise was on the verge of closing down.

After a new factory head came to the job in 1984, the first major thing he did was to rush to developed areas such as Beijing, Jinan, Wuhu, and Shanghai to search for business partners. After careful consideration, they selected the Shanghai Thermos Bottle Factory.

Discussions on the details sparked controversy within the company in Xinjiang, however. Some people felt that the Shanghai Thermos Bottle Factory's request for 45 percent of profits in exchange for technology transfer was excessive. Some cadres, workers, and staff continuously grumbled outside the negotiation room that "we cannot give in; it would be better to do it ourselves than give 45 percent of profits to Shanghai."

The factory leadership was not swayed, because they were very clear on one point: it would be better to share profits and revitalize the enterprise than to watch it go down the tubes. The attitude of the deputy secretary of the Urumqi Municipal Party Committee in charge of industry was even more liberal. He told the factory leadership: even if you have to share the profits equally, you must accept their conditions.

So it was that the economic and technological cooperation agreement, which would have so much to do with the fate of the enterprise, was finalized in the spring of

1985. The Xinjiang Thermos Bottle Industry Corporation escaped from the doldrums that year, and since then its economic benefits have soared.

"Linking up with the coast" not only enabled this factory to emerge from years of losses and get on track, but it also laid a solid foundation which allowed this factory to seize an opportunity to open up to the outside world and aggressively "export to the West." By 1990, over 3 million thermos bottles had been exported to Central Asia, bringing in over 3 million US dollars and 7.2 million Swiss francs. Since 1989, this company has set up four joint venture thermos bottle plants in Kazakhstan and Uzbekistan, becoming the first enterprise in Xinjiang to set up plants outside the country.

The key to the success of the Xinjiang Thermos Bottle Industry Corporation has been its ability to overcome the narrow view of the small producer, who is afraid to take a loss, and to overcome the dependent nature of enterprises under a product economy, thereby winning the trust of its partner. The interesting thing is that a few years later the Shanghai Thermos Bottle Plant relinquished every last penny of profit to the Xinjiang enterprise, yet it continued to carry out the technology transfer and provide management assistance for free.

Perhaps many people already know that the Xinjiang Automobile Factory has been able to grow and prosper because it joined the China Automobile Manufacturing Factory No. 2, but who understands how the former has been able to climb up to the table and earn equal status in the family?

When negotiating the merger with the China Automobile Manufacturing Factory No. 2, the Xinjiang Automobile Factory was not afraid of being gobbled up, and it had the courage and vision to dare play second fiddle. Without any effort to whitewash the facts, it handed its fate over to the China Automobile Manufacturing Factory No. 2. It was only because the Xinjiang Automobile Factory had the foresight to carry out production in a manner consistent with the demands of socialized large-scale production that it won the appreciation and confidence of China Automobile Manufacturing Factory No. 2.

In 1984, this formerly unknown, nearly bankrupt, backward enterprise joined the "China Automobile Manufacturing Factory No. 2 Group" (from whom it obtained the Dongfeng auto chassis and various advanced technologies) and the two companies carried out joint management in the six areas of personnel, finance, materials, production, supply, and marketing. Under the guidance of China Auto No. 2, they developed 92 products in five different series, of which one product won a Chinese Automobile Industry Second Class Prize for Scientific and Technological Advancement, as well as a Third Class State Prize for Scientific and Technological Advancement. By 1991, output value at the factory had reached 109 million yuan, its sales revenues had reached 191 million yuan, and its profit taxes had reached 15.85

million yuan, thus making it one of the ten biggest industrial enterprises in the Autonomous Region.

'Bogus' Feasibility Studies

93CM0105B Urumqi XINJIANG RIBAO in Chinese
10 Oct 92 p 2

[Article by Zhu Biyi (2612 1801 5030): "The Feasibility of 'Feasibility Studies'"]

[Text] In order to strengthen the scientific and democratic nature of capital projects, and to provide dependable information to policy makers, localities have had to carry out feasibility studies for any construction project or technology upgrade of significant scope. Participants in these studies are generally engineers and specialists from the relevant departments. Their words carry great weight. Generally speaking, anything that has been through a feasibility study will be a much less risky venture, and the investment will not be a blind one. There are exceptions, however. These "exceptions" are worth looking into.

A controversial project was recently begun in Urumqi. Some technical specialists pointed out that the project would use old imported equipment, and that there was no detailed information on how advanced the equipment was, the performance of the products, how production would be organized, etc. It was not a feasible project. Although specialists raised a lot of questions, the project still went through in the end.

This was a feasibility study that did not meet the standards of a feasibility study.

A comrade from the Xinjiang Textile Industry Design Academy said that with some projects, a certain party will underreport the size of its investment just to get the project. When the Academy gets the assignment to do a feasibility study, it often sees on the documents from the government agency in charge which has approved the project that it "is not to exceed XXX amount of yuan in cost," but this number really only covers the fixed asset investment, while failing to account for interest on loans or investment direction regulatory taxes. In actuality, the project cannot be done. The Academy can only carry out its feasibility study based on the investment limits given in the approval documents. The foot must be pared down to fit the shoe: related facilities might be eliminated, or production processes might be shortened. Mangled projects bring severe consequences.

Such feasibility studies ram through a feasible verdict no matter what.

Then there are feasibility studies that everyone knows are not done thoroughly. A comrade from the Construction Bank in Xinjiang told reporters for some of the feasibility studies he has taken part in the related materials did not arrive until the day before the meeting, so there was no time to read them over. He said that the bank still has to carry out its own evaluation of the

project, however, anyway, so "you report your figures and I will report mine" is how it works out.

"Salt works projects are often near completion before they come to us for a feasibility study. Some salt works have been in production for years by the time we get done with the feasibility study." This is what a responsible person at the Xinjiang Light Industry Design Academy said.

To put it bluntly, this type of feasibility study is no different from a wedding in traditional times, where the symbolic meaning of putting the bride in the sedan chair and lifting the curtain was far greater than the practical significance.

What has brought on these various abnormal phenomena in feasibility studies? How are we to assure the integrity and scientific nature of feasibility studies?

A few years ago, we often heard about "such and such a project" or "project XXX." Most of these were the pet projects of some high ranking leader or another. Calling specialists together was usually just to have them give their stamp of approval to the project. Some people jokingly referred to this type of feasibility study as "writing on an assigned topic."

Most projects today are the result of a collective decision, even when they do reflect the desires of the leader, but, in private, people still talk about how who was behind a certain project. The people they get to take part in feasibility studies are usually from some economic management organ, such as the Council on Economic Affairs, so even when crucial questions are raised in the course of a feasibility study, they often feel that, as members of a government agency, they must support the government's decisions.

Also, those involved in economic work cannot usually consider only economic questions when dealing with issues. This is clearest with regard to some poor districts in southern Xinjiang, where enthusiasm for starting projects is strong. They lobby their cases in Urumqi and Beijing. Just going by state industrial policy, the laws of the marketplace, or the principles of economic benefits, many projects should not be approved, yet it often seems that they actually should be approved in order to lend a hand to poor areas and shore up stability. The result is that the project goes through, the market changes, the quality of enterprise management and technology is too low, and the enterprise closes down. Millions or tens of millions of yuan cannot be recovered. Not only do such projects fail to add vitality to local economies, but they in fact tie the hands and feet of the people there.

Such instances have occurred countless times in Xinjiang.

Some design organs also acknowledge that they depend on design work for a living, so they sometimes underreport expenses which they know are going to exceed specification just to satisfy the demands of a certain party. In addition, it should be economists who evaluate

the economic benefits of a given project, but in reality such evaluations are often carried out by engineers.

Disregard for feasibility studies has incurred a string of consequences for the Xinjiang economy.

In the past few years, Xinjiang has seen successive investment crazes in woolen mills, cotton mills, dairy farms, ketchup plants, chemical complexes working with salt as the main feedstock, etc. These have reflected mistakes in macroeconomic regulation, control, and policy making, but in the midst of these crazes our management and design organs have not seen the situation clearly or provided strong theoretical proofs to cool down overexcited leaders. On the contrary, using countless bogus feasibility studies, they have exacerbated the blind economic overheating. Even today, this tendency to call everything feasible whether it is or not has not been completely eliminated.

The issues that should be scrutinized in feasibility studies are not scrutinized. One enterprise after another is established in the face of sound reasons against it, problems quickly surface, and enterprises reap horrible economic benefits. According to the Xinjiang Department of Finance, the rate of recovery of loan balances in 1991 was only 13.5 percent, while it had been around 25 percent a few years ago. The figure for 1992 is expected to drop even lower.

There are ways to solve the problem. During our interviews, many comrades pointed out that feasibility studies have to do not only with the investment management system, but also touch upon the enterprise operation mechanism. Our enterprises today still show the signs of being government-run; the party secretary or deputy head of the prefecture says they want to start a certain project, then they go find people to carry out a feasibility study. If anything goes wrong, everyone points the finger at someone else.

One solution would be to give greater autonomy to enterprises. The Xinjiang Council on Economic Affairs was originally responsible for inspection and approval of any technology upgrade involving an investment of over 1 million yuan, and the figure was increased to 3 million yuan last year. This now appears to be too low, and should be raised to 10 million yuan. If enterprises have money, they can decide themselves.

Who will do feasibility studies for them? Government organs would not be appropriate, but they could look for a "third party." The Xinjiang Engineering Consulting Corporation, established in 1989, is precisely that "third party." This company is scheduled to carry out consulting for or evaluate 54 projects this year, and there will be more unscheduled jobs. Because this kind of company is independent of the government, its attitude would be fairer. They even said "no" to some projects in the past two years which reportedly had been approved by principal leaders of the Autonomous Region.

Secrets of Hami's Economic Success

93CM0104A Urumqi XINJIANG RIBAO in Chinese
11 Oct 92 p 1

[Article by Shao Qiang (6730 1730) and Deng Shuqi (6772 2885 7871): "The Secret of Hami"]

[Text] In the first nine months of this year, the policy of opening up has been implemented at a breathtaking pace in Hami Prefecture. During this period, a total of 119 contracts, agreements, and letters of intent have been signed with agencies and enterprises throughout China and abroad to carry out economic and technological cooperation. The total value of these agreements was 200 million yuan. Furthermore, 101 trade contracts and agreements totalling 172 million yuan have been signed with partners throughout China and abroad. These figures, respectively, were 2.16 and 18.26 times higher than those for the entire previous year. In comparison with some prefectures which got an earlier start on opening up and enjoy better conditions, these figures are not large, but they are unprecedented for Hami.

How did Hami achieve such success? In the words of a comrade from Hami, "we thoroughly grasped the two sides of the issue, combined the opening up policy of the Autonomous Region with actual conditions in Hami Prefecture, and began to open up in a manner appropriate for Hami's conditions."

What he meant was this:

"Thoroughly grasping the two sides of the issue" means, on the one hand, to thoroughly understand what comes from above, e.g.—the spirit of Central Committee policy and the programs of the Autonomous Region. Since the beginning of this year, we have repeatedly studied the speeches of Comrade Deng Xiaoping in his trip to the south, the spirit of the plenary session of the Politburo, and a series of opening up programs handed down by the Autonomous Region. We have "gotten a new set of brains" and changed our concepts. In the second place, it means to thoroughly understand what comes from the grassroots level, e.g.—local conditions. The Autonomous Region has introduced a number of slogans: "Link up with the East and export to the West; open up across the board." "Use geographical advantages to bring resource advantages into play, use trade to promote industrial growth, and promote development through opening up while promoting opening up through development." What geographical advantages does Hami enjoy? What advantages does it have in the way of resources? How to "promote" and "open up across the board?" These are the things we all thought about the hardest. After thinking it out thoroughly and combining the policies from above with local conditions, it was possible to open up and create a new set of conditions.

Now that is talking from experience.

Therein, surely, lies the secret of Hami's success in opening up so rapidly.

**Linking Up With the East, Setting Off for the North,
Expanding Toward the West—Hami's Strategy of
Opening Up Across the Board**

What geographical advantages does Hami enjoy? How to use actual conditions in Hami to carry out the Autonomous Region's program of opening up across the board? This was a big question on the minds of the people of Hami. The slogan in Heilongjiang was "link up with the south, set off for the north," while the slogan adopted by the Autonomous Region was "link up with the East, export to the West." As the eastern gate to the Autonomous Region, what was Hami to say? The deep-thinking people of Hami came up with a six-character slogan: "link up with the East, set off for the North, expand into the West."

Hami is the gateway to Xinjiang. It is closest to the rest of China and best situated to "link up with the East." Each of the prefecture's three counties and municipalities are on the borders of Xinjiang. After the trade port at Laoyemiao, on the Mongolian border, was opened up, the conditions existed for "setting off to the north." Hami is situated alongside the second Eurasian land bridge and is thus in a position to "expand toward the West." The slogan "link up with the East, set off for the North, expand into the West" fits local conditions in Hami perfectly.

Once a program was decided on, it had to be vigorously pursued.

The Hami Prefectural Party Committee and the Administrative Office decided that the success of "setting off to the North, and expanding toward the West" depended upon how well the prefecture was able to "link up with the East," so this latter aspect was made the focus of their work. Since the beginning of this year, they have worked hard to strengthen links with the rest of China. So far, Hami has established sister city relationships with eight cities in Gansu, Sichuan, Jiangsu, Zhejiang, and Jilin. Hami's subordinate counties and municipalities have also set up sister county and municipality relationships with counterparts in the rest of China. Building upon this basis, Hami has established economic and trade links with over 10 provinces and municipalities throughout China, finalizing 86 agreements of various types.

Hami has built upon the foundation of its "linking up with the East" to "set off for the North." In the first nine months of this year, several shipments have passed through the port of Laoyemiao, and total imports and exports have come to 1480 tons, or 5.78 times more than last year. Our exports have fanned out from Mongolia's Govi-Altay Province into six other Mongolian provinces. At the same time, building of the port has been progressing non-stop. Offices and living quarters have been completed, and work is progressing rapidly on the border inspection station, meeting room, and warehouses.

A major obstacle to "setting off for the North" is snow in the mountains during the winter. The mountain roads are steep and the topography is forbidding. The mountains are snowbound for half the year. In order to solve this problem, the prefecture has decided to invest in a new highway, and it will build a new 170-km road from Balikun to Laoyemiao.

While "linking up with the East" and "setting off for the North," the prefecture is also aggressively opening up markets in the West. Prior to the Urumqi Trade Fair, the Prefectural Party Committee and the Administrative Office had sent two observation teams to, respectively, the nations of the Commonwealth of Independent States and to Yili, Tacheng, and Bole, where they signed an agreement with Uzbekistan for joint ventures in a children's clothing factory and a silk reeling factory. The prefecture also decided to establish "windows" upon the West in the aforementioned three cities along China's western border. Hami had its troops even more prepared for the Urumqi Trade Fair, to which it sent a 200-strong delegation led by the secretary of the Prefectural Party Committee and the deputy prefecture head in charge of the Administrative Office. In nine days they signed 69 trade contracts worth 200 million yuan.

Build a Nest To Attract a Phoenix, Clearing a Ditch So the Water Will Come—Hami's Strategy for Converting Resources into Economic Strength

The population of Hami Prefecture is only 410,000, but it is rich in resources. It has 76 types of proven mineral deposits, and its 500 billion tons of coal reserves place it among the 10 largest coal fields in the world. Its copper and nickel reserves are second in size only to those of China's "nickel capital," Jinchuan. Hami is called "the second Jinchuan." It has considerable petroleum reserves, and it has been decided to build the Turpan-Hami oil field base in Hami. The great majority of minerals are distributed along the railway, so transport is convenient. Some people say that Hami has few people but many resources. There is much truth in that statement.

A major issue now in Hami is how to obtain the funds, technology, and personnel necessary to develop its resources, thereby converting its potential resource advantages into actual economic advantages. The highly thoughtful people of Hami have come up with the idea of building a nest to attract a phoenix and clearing a ditch so the water will come, e.g.—to attract domestic and foreign funds, technology, and personnel, thereby achieving the goal of converting natural resources into economic strength.

In this regard, the Hami Prefectural Party Committee and the Administrative Office have mainly acted along three lines:

First, it has acted on its own to set up an economic and technological development zone. The state has not handed down any policy regarding this development zone, nor has the Autonomous Region given any money. The prefecture has done it at its own expense. The

development measures 10,000 square kilometers in area and has its own rail line. The two square kilometers which are being opened up in phase one already have running water, electricity, and roads. The general purpose building stands complete. A container transport truck company, established with an investment of 7.6 million yuan, is now in operation. The development zone's stores, freezers, and freight yards are now being rapidly constructed.

Second, urban infrastructure is being strengthened. In recent years, Hami has raised 1 million yuan every year to widen one street. The northern and western exits leading to state highway 312 have both been completed. The prefecture has spent tens of millions of yuan this year to widen streets, construct hotels, and build the sewer system. A computer-programmed system for 6000 telephones imported from abroad has almost been installed.

Third, the prefecture has formulated concessionary policies. Building upon work to free up our thinking and "get a new set of brains," everyone from the Prefectural Party Committee and the Administrative Office to the various counties and municipalities has formulated a series of concessionary policies in order to attract more funds, technology, and personnel for the development of Hami.

Of these three measures, the first two involve the physical environment, while the third involves systems. With these measures in place, can there be any need to worry about not attracting funds, technology, or personnel? Chen Demin [7115 1795 3046], secretary of the Hami Prefectural Party Committee, described the situation with a vivid metaphor. He said that we have opened up a plot of land (e.g.—established the economic and technological development zone), dug a ditch (e.g.—improved infrastructure), and threw out incentives (e.g.—formulated concessionary policies). All you have to do is throw on a little water and fertilizer (e.g.—funds, technology, personnel) and you can pick the fruit. With such good conditions, why not do it?

Of course, all of this is only the beginning. Whether you are building a nest or digging a ditch, everything takes time. This wise resource conversion strategy has shown promise in a very short time, however. In the first nine months of this year, the entire prefecture has imported or agreed to import 105.6 million yuan in funds, and brought in 66 specialists in various fields. This has injected much new life into the Hami economy.

Building a New Hot Line—Hami's Tourism Development Strategy

The Autonomous Region has stated the need for trade to take the lead in spurring industrial development. The people of Hami have been asking themselves what to focus on in the effort to spur industrial development. While considering this problem, to their delight they discovered that Xinjiang has rich resources for tourism,

which is a foreign exchange earner. Furthermore, as the gateway to Xinjiang and a jewel on the old Silk Route, Hami is in an especially good position to develop this industry.

Perhaps this is a kind of opened up mentality—as the people of Hami have examined themselves, they have also begun to cast their gaze upon their neighbors.

To the east is Dunhuang with its glorious Buddhist culture, attracting one group of tourists after another from China and around the world. Several hundred thousand people visit there every year.

To the west there is Turpan, which enchants Chinese and foreigners alike with its vivid central Asian scenery. It, too, attracts several hundred thousand visitors per year.

Yet Hami, in spite of its location between the two tourism hot spots, and in spite of its ancient tombs, more than 200 ancient beacon towers, and its unique eastern Xinjiang scenery, attracts almost no tourists.

The people of Hami struck upon a new line of thought: Why not use Hami as a link between the other two tourist spots?

There is a popular ballad with the following line: "Guest from afar, please stay with us." How to attract to Hami the guests visiting Dunhuang and Turpan? This is what the people of Hami were thinking about.

- They produced a video introducing the scenery of Hami, and published a picture book on Hami.
- They restored the king's tomb in Hami and collected Hami's cultural relics.
- They built the Hami Prefectural Hotel and provided tourist buses for travel agencies.
- They opened bus routes running from Hami to Dunhuang, Jiuquan, and Turpan.
- They are getting ready to offer "Silk Route" tours, grassland tours, ski tours in the mountains, and tours to observe ethnic customs.

Indeed, the "guests from afar" have stayed. Tourists from Japan, France, Germany, Italy, Belgium, Hong Kong, Macao, and Taiwan have begun to come to Hami. In the first nine months of this year, 47 tour groups have come to the prefecture, bringing a total of 840 people. Although this number is not large, at least we are working on something good. That is the important thing.

The effort to open up to the outside world is a big book, the writing of which cannot be completed without the blood and sweat of several generations. Hami has already written an eye-catching opening chapter. No doubt they will continue writing the book. They will make it bigger and better, and will leave a shining page in the huge book that is the opening up of the entire Autonomous Region.

Articles Examine Xinjiang Border Trade Posts

Huoerguosi Market

93CM0100A Urumqi XINJIANG RIBAO in Chinese
10 Oct 92 p 1

[Article by Guo Fuxing (6753 1788 5281), Ai Min (5337 3046), and Zhang Jie (1728 2638): "Let's Go to Huoerguosi"]

[Text] There is one indispensable stop for people who have been to Huoerguosi since 15 August—the border trade market.

On the morning of 13 September, we came to the port of Huoerguosi. Upon entering the market, located just to the southwest of the border crossing, we felt a heat wave smack us in the face: the nearly 3000-square-meter, tent-style market was packed full of people. In front of over 200 stalls were people of all skin types and accents haggling over merchandise.

Personnel from the industrial and commercial tax authorities explained to us that since the border trade market officially opened on 15 August, an average of 3000 people had visited the market per day, while the average turnover had been 200,000 yuan per day, and had reached 300,000 one day. Today four busses full of passengers had already come from Khazakstan, and they expected more in the afternoon. Before the market opened, many more people from the prefecture and beyond applied for stalls than are presently available. Letters, telegrams, and visitors are still coming in with requests for stalls. "The border trade market still has to go through phase two construction. The preliminary plan has already been reported to the authorities."

We tracked down a trader from Wenzhou whose voice we had been hearing. He said he was renting the stall together with some companions, and that he was manning the stall while the companions made frequent trips to China proper to get merchandise. He felt that the border trade offered a good opportunity to expand beyond home. His goal was to start trading abroad as soon as possible.

Just then a group of people from Khazakstan came to the counter to buy athletic clothing and sneakers. A young Russian named Valokia told us that this was his fourth time to the market, which he said he liked very much.

At the next stall over, a young married couple were busy taking care of customers as well as their two-year-old son. The wife, Liu Rong, freely told us that she used to be a worker in the Manasi Leather Goods Factory before she quit to work as an individual entrepreneur alongside her husband. "We should be able to make at least two to three thousand yuan this month." Liu Rong often answered her customers' questions in Russian as she chatted with me. She said she had picked it up on the job.

Many people from state-run or collective enterprises from around the prefecture and beyond also set up "windows" at the border trade market. Many observation groups from around the country also come here to see what is going on, check out the market, or simply enjoy the bustling atmosphere of the place.

By afternoon, a great pile bags and boxes has built up in the courtyard of the inspection building, foreigners waiting to leave the country mill about, and the whole scene is very lively. The parking lot outside is full of cars from Gansu, Shaanxi, and all around Xinjiang and central Asia. Next to a little sedan stood a Russian man of 40 or 50 reluctantly parting company with his host, who was seeing him off. It turned out the host was Zhang Xuefeng, head of the Bazhou Township Enterprise Bureau's Supply and Marketing Corporation, who had come in search of a trading partner. The guest was Klistantin, chairman of the Committee for Russian-Chinese Economic Cooperation, who had stopped off in Huoerguosi on his way back home from the Urumqi Trade Fair. The two had signed three contracts which included agreements to set up commercial affairs offices and establish a joint venture leather goods factory.

We asked Klistantin what he thought of Xinjiang and the port of Huoerguosi, and he stated that the border market was very lively, with business and construction going on everywhere. He said the Chinese markets were very prosperous, and that the path of reform and opening up was "halas" (good), "aochi halas" (very good).

"Let's go to Huoerguosi. Let's go to the border trade market in Xinjiang and do some business, do some trading, make big money. The traders come in from everywhere; the surge of humanity is a great tide of commerce and openness!"

Delegate Views Yining Trade

93CM0100B Urumqi XINJIANG RIBAO in Chinese
6 Oct 92 p 1

[Article by Wu Kangmin (0702 1660 3046), delegate to the National People's Congress, Hong Kong affairs advisor: "Looking at Border Trade Around the Yining Border"]

[Text] If you want to go to the border between China the Republic of Khazakistan, or if you want to go to Huoerguosi, which is currently the most important border trade port in Xinjiang, you first have to take an airplane for 1 1/2 hours to Yining, the capital of the Yili Khazak Autonomous Prefecture. Then you have to travel another two hours by car before you can get there. Some people do not think it is worth the effort, but I was extremely interested in observing this border trade port. Besides, last month I just went to Helsinki from Russia's St. Petersburg (formerly Leningrad) via the eastern border of the former Soviet Union. From one border in

the east to another in the west, thousands of li apart. It was very nice to be able to see them both in less than a month.

Border trade has developed very quickly here, just like the Sino-Vietnamese border trade I saw last time at Pingxiang in Guangxi Province. It even surpasses that here. Border trade is now the main source of revenue for Yili Prefecture. The prefecture's total imports and exports last amounted to 9.26 million U.S. dollars, while the figure has already hit 32 million U.S. dollars in the first half of this year, over three times the figure for all of last year.

The entire prefecture has 16 border trade ports, of which three have been opened up at Huoerguosi, Takeshiken, and Hongshanzui. Huoerguosi is the largest.

I have now been to Huoerguosi and seen their newly constructed hotel, border inspection station, border trade district, and the border between China and Khazakistan.

It looks like border trade has only just started; there is no infrastructure on the border to speak of. The roads are steep, no landscaping has been done, the border inspection station is tiny, and the merchandise storage area is chaotic. Groups of people from the Commonwealth of Independent States (CIS) squat around watching over their merchandise. Battered old trucks from the CIS slowly creak toward the border, overloaded with goods. Some border defense personnel scream at the "foreign peddlers" watching over their merchandise, making no effort to show courtesy. The air at the border crossing checkpoint is very polluted, and there are not enough border crossing personnel. In short, things are not set up yet.

The border trade district is just a small market; it is not as big as the "women's street" on Mabao Street. The things for sale are fake athletic shoes and athletic clothing which would not be at all attractive to shoppers in Hong Kong or even Guangzhou. It is said that the "foreign peddlers" bring wads of U.S. dollars (rubles are useless) in exchange for bag after bag of merchandise. The "foreign peddlers" use small electronic dictionaries to communicate; when the price is right, they open up those red and white striped plastic bags you always see people getting off the boats with in Hong Kong, and stuff hundreds of articles in.

From August of last year through June of this year, over 40,000 people have swarmed into the markets of Yining. Over 1000 people stay here every night. All the hotels and inns are always full, and this alone has brought in over 4 million U.S. dollars.

The fact that so many buyers come here from the CIS is an indication of the gap between the light industrial products markets of the two places. There is a great future for border trade. If the people in Xinjiang do a good job of "linking up with the East" and bring in better

products from Shanghai and Guangdong, it will really dazzle the "foreign peddlers."

Obstacles Reported in Land Contracting

93CM0102A Urumqi XINJIANG RIBAO in Chinese
7 Oct 92 p 4

[Article by Liang Song (2733 2646) and Zhuo Li (0587 0500): "The Early Demise of the Ninghua Farm"]

[Text] On 18 June 1992, the Production and Construction Corps Branch Court of the Xinjiang Uighur Autonomous Region's People's High Court delivered a final verdict: the land contract signed by Hu Erning [5170 0059 1337], owner of the Shihezi Ninghua Farm, and the Xinjiang Academy of Land Reclamation Sciences, was valid, and the Academy had to pay Hu Erning 670,000 yuan for fixed asset fees and interest.

Although the Ninghua Farm, a product of reform, met with an early demise, a just ruling was finally handed down on a contract dispute lasting five years and centering on the use of land by household farms.

At the northwestern corner of the Xinjiang Academy of Land Reclamation Sciences there was a 170-mu plot of highly alkaline soil. The white salt patch spreading along the ground looked like a white tiger tooth springing out to eat a wild rabbit. Not only could it bite to death a large swath of crops, but it could even destroy buildings made of brick and concrete. On this patch of alkaline soil, 57 mu of weeds and low-lying swamp had never been used for anything. It was a place of standing water and reeds frequented by wild rabbits, otter, and weasel. Part of the land had once been opened up, however; in 1972, 73 mu had been planted with 1322 apple trees, one-third of which had died in the harsh conditions by 1985. Even though the Academy was prepared to allow losses of 4000 yuan every year, not a single worker dared inquire about contracting the plot out, so the Academy sent the five members of a family to manage the place without collecting any fee at all.

On 1 January 1984, the Announcement of the Central Committee Regarding Rural Work in 1984 stated that state-run farms should continue carrying out reform by implementing the contract responsibility system with compensation linked to output, and by setting up viable family farms. Hu Erning, a cadre in the Administrative Office of the Xinjiang Academy of Land Reclamation Sciences, resigned from his secure job and contracted out this 170-mu plot of alkaline soil.

The Academy earnestly discussed the report from Hu Erning and concluded that his request was in line with the spirit of the instructions from the Central Committee. On 5 April 1985, the Academy reached agreement with Hu Erning, and a contract was signed and stamped. The contract stipulated that this 170 mu was to be contracted out to Hu Erning for 30 years to be used for agricultural, industrial, and commercial activities. During the first 10 years, Hu would pay the Academy 15

yuan per mu per year, while this figure would increase to 20 yuan during the second ten years and 25 yuan in the last ten years. During the initial period of the contract, the Academy was to provide certain types of assistance. Should either party violate the contract, it would have to pay the other party 200,000 yuan in cash and make compensation for damages.

Just to cover all the bases, Hu Erning had the president and party secretary of the Academy serve as contract guarantors, he hired the lawyers Li Dagang and Chen Rui to serve as legal counsel, and on 3 June 1985 he had the contract notarized at the notary office in Shihezi Municipality. At that point the Shihezi Ninghua Farm came into being.

In accordance with the spirit of the contract, Hu Erning did not ask the state for a penny. Leading a group of 11 workers from the Academy, five family members, and two waiting-for-employment youths, he struggled bitterly to build up his business from scratch. Renting a tractor for plowing, he first set to work on 20 mu of wild land that had never been opened up since the farm was established in 1950. With bank loans and the help of friends and relatives, he raised 810,000 yuan. He hired specialists from the Academy and drew up a comprehensive plan for the land he had contracted for. He planted two belts of trees; drilled a well; built a water tower with a 778-meter water pumping mechanism; put up 1.108 kilometers of power line; bought six cars; and built an office, an employee dormitory, a machine shop, a chicken hatchery, and a feed processing shop. They planted 80 mu of alkaline-resistant sunflowers and soybeans; bought over 2000 tons of feed; built a 10,000-chicken chicken coop of brick and concrete; put in the foundation for a 1000-pig swine enclosure; and built a 10-mu fish pond. In only two-and-a-half years, they provided society with over 2 million yuan worth of products. The particle board they manufactured was evaluated as being of superior quality by the Shihezi Quality Inspection Station. In addition, Hu Erning also helped Shihezi Municipality pave 2 kilometers of road, and together with the Municipal Sports Commission put in a swimming pool in his swamp. These acts not only enriched the people's sporting life, but also expanded product circulation channels.

Flexible and diverse operations yielded higher profits every year for Ninghua Farm; they went from 50,000 yuan in 1985 to 150,000 in 1986 to 200,000 in 1987. Swimming in the dew and sunshine of reform, the vigor of Ninghua Farm attracted a lot of attention.

Watching everything at Ninghua rise up like a perfectly made batch of bread, some people at the Xinjiang Academy of Land Reclamation Sciences Experimental Plot became envious.

Some leaders at the Academy felt that the period of Hu Erning's contract was too long and that it did not require him to pay enough to the Academy. They also raised

objections about his construction of fish ponds at Ninghua Farm, so they pressured him to revise the contract. Hu Erning felt that both parties had agreed to the contract and had it notarized, and that for a single party to revise it unilaterally showed no respect for the law. He stuck to his guns and insisted on carrying out the original contract.

At the Academy's request, a relevant department of the Production and Construction Corps issued a document stating that as an administrative cadre, Hu Erning could not contract for a family farm, and that the contract was therefore void. Hu Erning felt that this document was not legally valid, and that it was not within that department's jurisdiction to declare the contract void, so he ignored it.

In order to nullify the contract through legal means, the Academy arranged to be sued by its subordinate arm, the experimental plot. The suit claimed that "the Academy had infringed upon its rights, had not received a request for the action it took, and had exceeded its authority." The result was that the Court of First Review ruled on 27 September 1987 that the land contract between Hu Erning and the Academy was invalid.

The success of this fake lawsuit destroyed the tender shoots of the Ninghua Farm as ruthlessly as would any hailstorm in May. The people hired by Hu Erning were all transferred or hired away. The facilities that he had built up with his 810,000 yuan were sold off at reduced prices.

Nearly three years of work were destroyed over night. Nearly three years of bank loans made for some terrific debts. His creditors went to court for payment, and Hu Erning received 19 court orders to pay debts totaling 290,000 yuan. His creditors even pursued Hu onto the floor of the National People's Congress, to which he was a delegate. His family's television, refrigerator, washing machine, and electric fan were all carted away by creditors. In the dead of winter 1989, he had to take a suitcase and sneak away from home to sleep outside.

But the law is, after all, authoritative and just. The early demise of the Ninghua Farm taught people a vivid lesson. In the great tide of reform, we should ask ourselves how to aid the cause of reform so it will go forward full speed ahead and enable us to achieve our ideals.

Resolution on Discontinuation of National Title

93CM0019A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 290, 3 Oct 92 pp 54-55

[Article by Ch'en Chien-hsun (7115 1696 0534): "Local Legislatures Work Together To Change the ROC Title, With Agitation for Change by Members of Both Parties—The Process and Impact of Local Legislative Proposals in Places, Such as Tainan City and Kaohsiung County, To Change the National Title"]

[Text] On 16 and 19 September 1992, respectively, the Tainan City and Kaohsiung County legislatures both passed motions asking the national government to discontinue its "One China" policy, by changing the Republic of China (ROC) title to "The Republic of Taiwan (TROT)." Whereupon other county and municipal legislatures in Taoyuan County, Yunlin County, Chiayi City, Tainan County, Taipei County, P'ingtung County, Nant'ou County, and Taipei City all indicated that they would make similar legislative motions.

These uniform actions, particularly as bipartisan motions, show that since the severing of diplomatic relations between Taiwan and South Korea, the calls for "One China, One Taiwan" seem to be expanding from private actions by independence-party groups into civic institutions at all levels.

The passing of the Tainan municipal legislative motion was the beginning of this trend. Ch'iu Wen-ming [6726 2429 2494], one of the seven members of the opposition-party political faction in the Tainan municipal legislature that made the motion to change the ROC title, said that as this legislative session was a provisional one of only eight days, "it was necessary to seize the time to make the motion as quickly as possible."

It was pointed out that the only legislator on the scene at the time who objected was the KMT legislative party group deputy secretary general, Shih T'ai-sheng [2457 0669 3932], with certainly no opposition from any other legislators.

Li Chin-yi [2621 6855 0308], DPP party committee chairman in Tainan City, analyzed the successful passing of this legislative motion as not being unrelated to the previous legislative decision to "free Chang Ts'an-hung" [1728 3503 3530]. Li Chin-yi spoke as follows: "Chang Ts'an-hung has a geographical relationship to Tainan City, where the local government dislikes the political pressure that has been put on him. In addition, the longstanding advocacy for "Taiwanese independence" by the forces of Taiwan Province Congressman Ts'ai Chieh-hsiung [5591 0094 7160] and (Christian) church elders actually gives the "Tainan region a widely popular identification with Taiwanese independence."

An even sharper focus of attention was the signing on to this provisional motion by KMT legislator Ts'ai Sen-nan [5591 2773 0589].

Ts'ai Sen-nan comments as follows: The stands that our government is now taking in areas, such as exchanges across the Taiwan Straits, joining the international society, and dealing with foreign affairs, which are a search for "coexistence by the KMT and CPC," mean that many of its methods are a tacit approval of "One Taiwan, One China."

Ts'ai Sen-nan points out that as politics involves everyone, there is nothing that cannot be discussed, and a representative of the people in particular cannot hide from the truth. He further emphasizes that "while I am of course a member of the KMT, I am even more so a representative of the people, so that I report the facts, which the party central committee should also do."

While the KMT's Tainan party headquarters has not yet acted on this case and his involvement in it, Ts'ai Sen-nan makes the following remarks: My constituents will not abandon me because my signing on to this motion violates party central committee principles. "As Tainan is a small place, only the quality of my service to my constituents will have a direct impact on my future."

While the provisional session of the Kaohsiung County legislature on 19 September broke up because of "lack of a quorum," so that the motion to change the ROC title was not discussed, 12 KMT congressmen in the Kaohsiung County legislature, such as Wu Ho-sung [0702 7729 2646], vice president of the legislature; Chiang Chi-yuan [3068 0679 3293], legislative party group secretary general; and Chang Chien [1728 4675] and Ch'ao Hsiung [2600 7160], deputy secretaries general, signed the motion to change the ROC title, making one feel that Kaohsiung County is almost "complete enemy territory" for the KMT government.

Yen Wen-yi [7346 2429 0001], the KMT's Kaohsiung County party committee chairman, says that the party headquarters and certain of the KMT legislators who signed the motion did so only because they knew at the time that it could basically not pass due to the lack of a quorum, while such "cliquish" signing of motions by legislators is not uncommon, which is what led to this situation.

But Yen Wen-yi goes on as follows: As some KMT legislators had certainly not considered the issue very deeply at the time, but were merely responding emotionally to the severing of diplomatic relations between Taiwan and South Korea, they will be able to understand the seriousness of the situation upon reflection, including the related impact at the ballot box.

Wu Ch'eng-chang [0702 2110 3864], another KMT legislative party group deputy secretary general, says that in addition to it being very common for party members to sign on to motions together, with everyone being willing to do favors at little cost to themselves, and the signing by the vice president of the legislature setting an easily-followed precedent, "Kaohsiung County is under the control of Ch'en Yueh-ying [7115 2588 3841], and many legislators are unwilling to displease the DPP,

while many matters need the help of the county executive, and this motion was made by them (the DPP)...."

Wu Ch'eng-chang emphasizes the following: "While they have signed motions for me, and we mostly help each other by signing many constructive ones, this case violated national policy, was very sensitive, and was unresolvable by the provincial congress and even the Legislative Yuan, so that I was forced to refuse." I feel that the main purpose of this motion was simply to embarrass the KMT.

Huang Teng-yung [7806 4098 0516], the DPP legislator who made the motion, says that as I particularly enlarged the faxed copies that I presented to the legislators for signing, "those legislators who signed on together absolutely knew what they were signing."

The KMT legislators who signed on to the motion also had varying motivations for doing so, with one Wang Ch'un-te [3769 2504 1779] speaking as follows: "We legislators who signed the motion paid very little notice to its key points because, when our colleagues signed, it would have been embarrassing for us to refuse. This is even more so as Huang Teng-yung is my neighbor." Another, Huang Ping-wen [7806 4426 2429], comments as follows: This motion was only a suggestion, and certainly not a binding one. Moreover, "the title Taipei is already being used internationally, which shows quite clearly that we are already independent."

While Huang Teng-yung is going to bring up this motion again at a regular session of the legislature because the 27 legislators who he believes will sign on to it constitute more than half of all of the legislators (50), showing that it has a consensus, Wu Ch'eng-chang is certain that all KMT legislators will refuse to sign it at a regular session.

While many county and municipal legislatures are now still adjourned, a "wave of motions to change the ROC title," set off by those at the provisional sessions of the the Tainan City and Kaohsiung County legislatures, is already underway. While each session of every county and municipal legislature ordinarily brings more than 100 motions on "requests to the Central government," which leaves the possibility of this one being effective in considerable doubt, and KMT legislators in other legislatures are likely to be more on guard against this one now, this wave of bipartisan local legislative motions still warrants attention.

How Candidates View National Identity Crisis Issue

93CM0091A Taipei HSIN HSIN WEN [THE JOURNALIST] in Chinese No 297, 20 Nov 92 pp 86-88

[Article by Hsieh Chin-jung (6200 6855 5554)]

[Excerpts] As smoke engulfs an old map, and drums beat for a new one, views on the national identity crisis for Taiwan emerge from campaign pronouncements of candidates running for seats in the Taiwan legislature.

[Passage omitted] Lin Yu-hsiang [2651 6877 4382] a candidate yet to be named by the Kuomintang (KMT) from the southern district of Taipei, recently issued a first set of formal pronouncements on a "Series of Crises for Taiwan." Not only did he adopt an old map of Taiwan used by new-trend elements in the past, he also added a poem in Taiwanese that equated Taiwan to "our mother." His campaign headquarters indicated that this "was designed by a group of friends and scholars concerned about Taiwan's future." Spokesmen refused to give details on how the pronouncements were drafted.

[Passage omitted] In the election three years ago, no one would have foreseen that candidates from the KMT's Collective Wisdom would promote the idea of Taiwan First. In the beginning, the fact that the Chi-szu-hui group at the fringe of the KMT had suggested a national identity separate from "One China" showed it was puzzled by the KMT's long-standing view and questioned it. The group's doubts found their way into speeches and writings of second generation Taiwanese candidates. This progressed into concern and hesitation as reflected in pronouncements by Kuan Chung [7070 0022], Li Ch'ing-hua [2621 1987 5478], and Wei Yong [7614 1661]. The possibility that Taiwan could develop and stand on her own was attacked and suppressed consistently by adherents to the the KMT's ideology.

The second generation Taiwan natives born after World War II, or those whose education began after World War II, are coming up in society now. Gradually, they have been going into the fields of politics (economics and education). But their political outlook has also come from a bipolar route to the crossroad of national identity. Aggressive elements such as Cheng Nan-jung [6774 0589 2827] and the present Association for Taiwan Independence support complete separation of Taiwan from China. At the other extreme, as represented by Kuan Chung and Li Ch'ing-hua, are those who see the problem through China's eyes to position Taiwan, for according to them, Taiwan not only shares weal and woe with China, (and in Kuan Chung's words) "the 'Taiwan Experience' is actually directing the mainland's 'Peaceful Evolution.'" Because they inherit the first generation's unrealized dream of "charging on horseback to the central plain" [going back to the Chinese mainland], they hope to find another version of this concept from the ideology of the movers and shakers among the second generation Taiwan born.

Professor Lin Hsiang-k'ai [2651 0686 1956], a member of the Association for Taiwan Independence, indicated that the national identity of the Taiwanese has come to a bipolar crossroad which requires many to take sides. The in-between voices that do not want to talk about independence or identity crisis are becoming less and less loud. Professor Lin thinks the way that Kuan Chung and Li Ch'ing-hua are using the crisis of Taiwan independence to mobilize the people is an unreasonable one, however. While it is necessary for the second generation Taiwan born to adopt a form of active support for Taiwan, and join organizations such as Taiwan churches, "they are not

willing sometimes to make it a 100 percent participation." For example, the language problem is a disturbing factor. He also feels that the class-distinction nature of objecting to use of the Taiwan dialect in the movement is a thing of the past. For now, any kind of objection is only more reactionary suppression.

[Passage omitted] A new book *The New Taiwanese* instigated by Kuan Chung attempts to soften up the reaction of the second generation Taiwan born toward the strong manipulative nature of those who have hopes for the "central plain." He thinks the Taiwanese feel a sadness toward the straits [of Formosa], for the opposite shore has always been the source of aggression. But now, the Taiwanese can affect China, and should be bold and adventurous enough to try regaining the glory of the first generation and "charge on horseback onto the central plain." What Kuan Chung can see is the relation between Taiwan and China. Whether it be China's Taiwan or Taiwan's China, the attention is basically not on this subject of Taiwan. Slogans such as "Protect Taiwan to rebuild the New China," and "Taiwan and the China mainland cannot really be separated" are frequently used by him. On the map of "charging onto the central plain," the map for Taiwan does not exist independently.

This time, the map of Taiwan has been used by a candidate who is a KMT member (though denounced by the KMT) as part of his campaign strategy. Professor Hsieh Ch'i-cheng [6200 0796 2398] of the Sociology Department at Taiwan University thinks it has become increasingly necessary for Taiwan's unclear status to be clarified. In the past 40 years, Taiwan's identity problem has been dealt with ambiguously, and because of the empty vanity of those in power, it has become increasingly difficult for the people to accept the idea. He says, "It is a good sign that someone has brought out these doubts. Because the importance of national identity is not any less important than democracy, nor that of the rule of law."

It is just that as the national identity problem has always existed, debate on the problem will surface sooner or

later, and enter the arena of political power pursuit. From the standpoint of competition for power, some people will think that the Chi-szu-hui candidate only found an ideology that is salable. Actually, the old Taiwan map evokes in people a feeling of love and loyalty to their native land. Now this feeling has been cheapened, because a map used by the new-trend element to promote Taiwan independence is now transferred onto the Chi-szu-hui candidate's leaflet to extend the contorted spread of the whole KMT setup.

[Passage omitted] Besides using an old map of Taiwan as campaign material, Lin Yu-hsiang further incorporated a poem in Taiwanese alongside it. While equating Taiwan to one's own mother, he was puzzled and doubts surfaced in the poem. "How do we create a base? Is it not for the sake of the country? The base is someone else's springboard; but the country will forever be our home." One's status at the temporary base was just as verboten as that of an unmarried mother. He deliberately placed an old-time wedding picture alongside the Taiwan map in the leaflet, as if to imply that only by going through the marriage ceremony could the temporary base become one's country forever. What kind of political maneuver is he hinting at with the marriage ceremony? The poem gives no indication.

All along, the Democratic Progressive Party (DPP) has taken the lead for finesse and creativity in their campaign literature. But sometime in the middle of this year, gradual changes took place within the organization, and only the inflexible KMT remained, with few persons outstanding enough to attempt packaging the KMT ideology of "One China only, and that is the Republic of China [Chung-hua Min-kuo]." When Lin Yu-hsiang says: "Mama, please take care," he is trying to use the vote to save Mama and Taiwan. But Lin Cho-shui [2651 3414 3055] publicly "declares war on the conservative clique led by Hao Pai-ts'un [6787 2672 2625]." As for Li Ch'ing-hua, he attempts to "ward off the fighting generals of the Republic of China." Even though there is only one battlefield, there are those who attack, those who defend, and those who run and hide, all for "their love of Taiwan."